

HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Information

30 June 2022

Interim Condensed Financial Information – 30 June 2022

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Presentation of information

This document comprises the Interim Condensed Financial Information – 30 June 2022 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 and the Summary of Unaudited Results.

Board of Directors' Report for the six months ended 30 June 2022

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Bank's first half financial results for 2022.

Performance Summary

Oman's outlook has continued to improve on the back of higher oil prices, rising hydrocarbon production and other reform programs. However, as major economies worldwide battle against the unprecedented rise in inflation global recession is now deemed to be a real possibility, which may impact Oman if the demand for oil drops.

Our performance in the first half of 2022 shows a 48.0% increase in net profit to RO14.8 M compared with RO10.0 M for the same period in 2021. This has been driven by an increase in net operating income and lower operating expenses.

Net interest income was up 6.0% to RO26.4 M for the period ended 30 June 2022 compared with RO24.9 M for the same period in 2021 mainly due to higher interest income which is positive outcome of rate hike. Net fee income increased by 12.8% to RO5.3 M for the period ended 30 June 2022 compared with RO4.7 M for the same period in 2021 owing to higher fees from cards.

Net trading income was marginally down by RO0.2 M and stood at RO3.2 M compared with RO3.4 M for the same period last year.

A net release of RO5.9 M has been reported to the Bank's ECL and other credit impairment charges compared with a net release of RO5.7 M for the same period last year. The Bank released RO6.0 M of Wholesale ECL offset by a RO0.1 M charge in Retail ECL. The ECL release was driven by an improvement in the macroeconomic variables.

Operating expenses reduced by 13.5% to RO23.1 M compared with RO26.7 M for the same period in 2021 primarily due to lower staff cost and prior year impairment charges that were not repeated in the current period.

Loans and advances to customers increased by 4.4% to RO1,391.8 M compared with RO 1,333.3 M as at 30 June 2021.

Customer deposits marginally increased by 0.8% to RO1,939.0 M compared to the same period last year. Our liquidity remains strong, as evidenced by an Advances to Deposit ratio (ADR) of 71.8% at the end of June 2022.

HBON's Capital Adequacy Ratio (CAR) stood at 21.4% as at 30 June 2022 compared with 21.6% as at 30 June 2021.

Delivering the best customer experience

In Wealth and Personal Banking (WPB), we launched a new to bank customer deposit acquisition campaign offering all customers cash back for bringing new deposits to their HSBC accounts.

We also launched an exciting campaign offering a chance to win 1 million rewards points for cardholders during 2Q and 3Q based on their usage of their credit cards.

This was supported by our Employee Banking Solutions program where we held around 615 in-person and virtual meetings, 20 open days with our top corporate employers and 12 financial well-being sessions.

In technology developments, the identification of customers through voice biometrics has been deployed in 2Q22. This allows the customers to access our banking services through our contact centre by phone using their voice as the unique identifier without needing to spend time inputting a phone banking code or answering questions to identify themselves.

In the wholesale Business, in June 2022, HSBC acted as a Dealer Manager on a voluntary cash tender offer by the Government of the Sultanate of Oman, represented by the Ministry of Finance, to buy back 8 series of its outstanding international US Dollar bonds via a Modified Dutch Auction structure. The transaction marks the first ever tender offer to utilize a Modified Dutch Auction mechanism by a MENA sovereign.

We also extended our latest payment solution, Global Disbursements, to Oman Air, which will allow it to execute international payments in various currencies its centralised treasury location in Oman. The Global Disbursement solution will introduce a simplified payment process that streamlines reconciliation and provides greater overall cash management.

HSBC Oman is proud to have collected two awards at the 2022 Euromoney Middle East Awards for Excellence. The Bank was named Oman's Best Investment Bank for the fourth consecutive year and also won the Best Bank in the Environmental, Social and Governance (ESG) category.

HSBC Bank Oman S.A.O.G update disclosure on the possible merger with Sohar International Bank S.A.O.G.

Further to the disclosure made on 19th June 2022 and to subsequent discussions between HSBC Bank Oman SAOG (HSBC Oman) and Sohar International Bank SAOG (Sohar International), the Board of Directors of HSBC Oman agreed to enter into a non-binding memorandum of understanding with Sohar International, dated 25 July 2022, on proceeding to exclusive discussions in relation to the possible merger between the two entities, on the basis of a merger by incorporation whereby HSBC Oman would be dissolved and its shareholders offered a consideration valuing HSBC Oman at 1.0x book value, with such consideration consisting of shares of Sohar International with the option for the shareholders of HSBC Oman to elect to receive the consideration in cash, provided that the maximum cash consideration payable by Sohar International to the shareholders of HSBC Oman that elect to receive cash consideration shall not exceed 70% of the total consideration payable by Sohar International. The shares of Sohar International that would form part of the consideration to the shareholders of HSBC Oman would value Sohar International at 1.0x book value. The respective book value of each bank would be calculated at a later date.

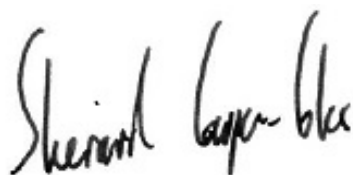
The ongoing exclusive discussions, negotiations and the potential merger shall remain subject to due diligence and entry into definitive agreements, in addition to obtaining final approvals from the banks' respective Boards, Regulators and Shareholders.

HSBC Oman has been informed by HSBC Group, its major shareholder, of its intention for HSBC Bank Middle East Limited ("HBME") to establish a new wholly owned banking branch in Oman. If the proposed merger discussions were to lead to a binding agreement, HBME would then request regulatory approvals for the setup of this new branch.

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 also 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 2022

	30 June 2022 RO'000	30 June 2021 RO'000	Change (%)
Loans and advances to customers – net	1,391,846	1,333,345	4.4%
Customer deposits	1,939,012	1,922,941	0.8%
Net assets	349,011	336,895	3.6%
Net assets per share*	0.174	0.168	3.6%

	Six month period ended 30 June 2022 RO'000	Six month period ended 30 June 2021 RO'000	Change (%)
Net interest income	26,364	24,901	5.9%
Profit for the period	14,820	10,035	47.7%
Earnings per share (annualised)**	0.015	0.010	50.0%
Capital adequacy ratio (CAR)***	21.4%	21.6%	(0.2)%

* 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 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 2022 and the related interim condensed statement of comprehensive income for the three-month and six month periods then ended, and condensed 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 these 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'.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

**Muscat, Sultanate of Oman
17 August 2022**

Interim condensed statement of comprehensive income for the three month and the six month period ended 30 June 2022 (unaudited)

		Three month period ended 30 June 2022	Three month period ended 30 June 2021	Six month period ended 30 June 2022	Six month period ended 30 June 2021
	Notes	RO'000	RO'000	RO'000	RO'000
Interest income	3	17,810	16,441	33,892	32,605
Interest expense	4	(3,802)	(3,819)	(7,528)	(7,704)
Net interest income		14,008	12,622	26,364	24,901
Fee income		3,808	3,166	7,007	6,449
Fee expense		(912)	(882)	(1,755)	(1,700)
Net fee income	5	2,896	2,284	5,252	4,749
Net trading income		1,590	1,650	3,201	3,361
Other operating income – net		(6)	17	222	137
Net operating income before loan impairment charges and other credit risk provisions		18,488	16,573	35,039	33,148
Change in expected credit losses and other credit impairment charges - net	6	3,859	3,532	5,892	5,687
Net operating income		22,347	20,105	40,931	38,835
Employee compensation and benefits	7(a)	(5,242)	(5,636)	(10,596)	(11,661)
General and administrative expenses	7(b)	(5,376)	(7,025)	(11,617)	(13,774)
Depreciation and impairment of property, equipment and right-of-use assets		(434)	(466)	(896)	(1,293)
Amortisation of intangible assets		(18)	-	(18)	-
Total operating expenses		(11,070)	(13,127)	(23,127)	(26,728)
Profit before tax		11,277	6,978	17,804	12,107
Tax expense		(1,852)	(1,207)	(2,984)	(2,072)
Profit for the period		9,425	5,771	14,820	10,035
Other comprehensive income / (loss)					
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Debt instruments at fair value through other comprehensive income					
-Fair value (loss) / gain		(326)	200	(130)	(600)
-Expected credit losses recognised in income statement		(407)	(19)	(384)	(116)
- Tax (expense) / release		49	(30)	20	90
Other comprehensive (loss) / income for the period - net of tax		(684)	151	(494)	(626)
Total comprehensive income for the period		8,741	5,922	14,326	9,409
Earnings per share – basic and diluted	8				
-for the period (RO)		0.005	0.003	0.007	0.005
-annualised (RO)		0.019	0.012	0.015	0.010

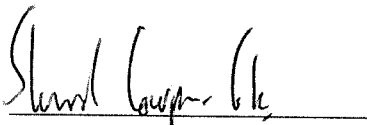
The accompanying notes form an integral part of this interim condensed financial information.

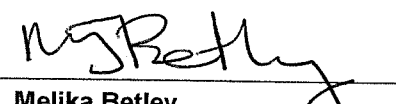
Interim condensed statement of financial position as at 30 June 2022 (unaudited)

		At 30 June 2022	At 30 June 2021	Audited At 31 December 2021
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		138,401	283,175	282,721
Due from banks		268,829	234,948	213,700
Loans and advances to customers - net	9	1,391,846	1,333,345	1,347,188
Financial investments	10	528,072	449,102	448,962
Other assets	11	56,539	39,281	34,078
Intangible assets	12	1,332	-	-
Property and equipment	13	20,047	19,622	20,342
Right-of-use assets		2,660	-	-
Deferred tax assets		2,614	4,452	2,256
Total assets		2,410,340	2,363,925	2,349,247
Liabilities and equity				
Liabilities				
Due to banks		54,120	47,598	48,444
Deposits from customers	14	1,939,012	1,922,941	1,901,094
Current tax liabilities		5,124	5,709	5,339
Other liabilities	15	60,536	48,055	46,492
Lease liabilities		2,537	2,727	2,391
Total liabilities		2,061,329	2,027,030	2,003,760
Equity				
Share capital	21	200,031	200,031	200,031
Legal reserve	22(a)	47,777	45,944	47,777
FVOCI reserve	22(b)	886	1,063	1,380
Retained earnings		100,317	89,857	96,299
Total equity		349,011	336,895	345,487
Total liabilities and equity		2,410,340	2,363,925	2,349,247

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

The interim condensed financial information were authorised for issue on 25 July 2022 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 2022 (unaudited)

	Share capital RO'000	Legal reserve RO'000	FVOCI reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2021	200,031	45,944	1,689	79,822	327,486
Total comprehensive income for the period					
Profit for the period	-	-	-	10,035	10,035
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	(626)	-	(626)
Total other comprehensive loss for the period	-	-	(626)	-	(626)
Total comprehensive (loss) / income for the period	-	-	(626)	10,035	9,409
Transaction with shareholders, recorded directly in equity					
Dividend for 2020	-	-	-	-	-
At 30 June 2021	200,031	45,944	1,063	89,857	336,895
At 1 January 2022	200,031	47,777	1,380	96,299	345,487
Total comprehensive income for the period					
Profit for the period	-	-	-	14,820	14,820
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	(494)	-	(494)
Total other comprehensive loss for the period	-	-	(494)	-	(494)
Total comprehensive (loss) / income for the period	-	-	(494)	14,820	14,326
Transaction with shareholders, recorded directly in equity					
Dividend for 2021	-	-	-	(10,802)	(10,802)
At 30 June 2022	200,031	47,777	886	100,317	349,011

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 2022 (unaudited)

		Six month period ended 30 June 2022	Six month period ended 30 June 2021 *Restated
	Notes	RO'000	RO'000
Cash flows from operating activities			
Profit before tax		17,804	12,107
Adjustments for:			
-non-cash items included in profit before tax	26(a)	(5,384)	(4,259)
-change in operating assets	26(b)	(64,664)	32,581
-change in operating liabilities	26(c)	58,340	(2,126)
-tax paid		(3,537)	(522)
-retirement benefits paid		(159)	(31)
Net cash generated from operating activities		2,400	37,750
Cash flows from investing activities			
Purchase of financial investments		(230,143)	(74,894)
Proceeds from maturity of financial investments		50,060	135
Purchase of property, equipment and software	13	(226)	(861)
Purchase of intangible assets	12	(1,350)	-
Net cash used in investing activities		(181,659)	(75,620)
Cash flows used in financing activities			
Dividends paid		(10,802)	-
Principal and interest elements of lease payments		(591)	(647)
Net cash used in financing activities		(11,393)	(647)
Net change in cash and cash equivalents		(190,652)	(38,517)
Cash and cash equivalents at the beginning of the period*		817,619	863,481
Cash and cash equivalents at the end of the period	26(d)	626,967	824,964

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

*Please refer note 27

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 International Accounting Standard ('IAS') 34 'Interim Financial Reporting' 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 2021 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 interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').

(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) Standards applicable during the year

There were no new accounting standards or interpretations that had a significant effect on the Bank during the period ended 30 June 2022.

(f) 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 2021.

A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2022. None of these are expected to have a significant effect on the interim condensed financial information of the Bank.

(g) Going concern

The interim condensed financial information is prepared on a going concern basis, as the Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Bank has considered a range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources.

(h) 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.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the Bank's accounting policies. Segmental income and expenses include transfers between segments, and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made.

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 and risk management objectives 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 2021.

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

3 Interest income

Interest earning assets earned interest at an overall annualised rate of 3.23% for the six month period ended 30 June 2022 (30 June 2021 – 3.19%).

	Six month period ended 30 June 2022	Six month period ended 30 June 2021
	RO'000	RO'000
Loans and advances to customers	29,026	28,453
Financial investments	3,445	2,333
Due from banks	553	321
Others	868	1,498
Total	33,892	32,605

4 Interest expense

For the six month period ended 30 June 2022, the average overall annualised cost of funds was 0.76% (30 June 2021 – 0.78%).

	Six month period ended 30 June 2022	Six month period ended 30 June 2021
	RO'000	RO'000
Deposits from customers	(7,295)	(7,457)
Due to banks	(147)	(170)
Others	(86)	(77)
Total	(7,528)	(7,704)

5 Net fee income

	Six month period ended 30 June 2022	Six month period ended 30 June 2021
	RO'000	RO'000
Cards	2,366	1,658
Account services	886	660
Remittances	650	537
Trade finance	560	523
Credit facilities	393	783
Global Custody	291	377
Others	1,861	1,911
Total Fee income	7,007	6,449
Fee expense	(1,755)	(1,700)
Net Fee income	5,252	4,749

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

	Six month period ended 30 June 2022	Six month period ended 30 June 2021
	RO'000	RO'000
Loans and advances to customer	5,484	4,929
Financial investments at FVOCI	384	116
Other financial assets	256	132
Due from banks	5	147
Loan commitment and guarantees	(237)	363
Total	5,892	5,687

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

7 Operating expenses

7(a) Employee compensation and benefits	Six month period ended 30 June 2022	Six month period ended 30 June 2021
	RO'000	RO'000
Wages and salaries	(7,911)	(8,361)
Social security costs	(844)	(810)
Post-employment benefits	(93)	(81)
Other employee benefits	(1,748)	(2,409)
	(10,596)	(11,661)
7(b) General and administrative expenses	Six month period ended 30 June 2022	Six month period ended 30 June 2021
	RO'000	RO'000
Premises and equipment	(1,465)	(1,439)
Insurance	(545)	(569)
Communications	(409)	(406)
Marketing and advertising	(238)	(699)
Other administrative expenses	(8,960)	(10,661)
	(11,617)	(13,774)

8 Earnings per share – basic and diluted

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

	Six month period ended 30 June 2022	Six month period ended 30 June 2021	Year ended 31 December 2021
Weighted average number of shares in issue ('000)	2,000,312	2,000,312	2,000,312
Profit for the period / year (RO'000)	14,820	10,035	18,332
Earnings per share – basic and diluted (RO)			
- for the period / year	0.007	0.005	0.009
- annualised	0.015	0.010	0.009

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

9 Loans and advances to customers - net

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Loans	1,173,278	1,147,983	1,140,632
Overdrafts	164,493	132,450	150,746
Clean import loans	58,950	68,115	62,151
Credit cards	38,579	30,436	32,338
Bills discounted / purchased	6,086	11,519	15,958
Gross loans and advances	1,441,386	1,390,503	1,401,825
Allowances for ECL	(35,988)	(42,740)	(41,393)
Reserved interest*	(13,552)	(14,418)	(13,244)
Loans and advances (net)	1,391,846	1,333,345	1,347,188

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

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

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Balance at the beginning of the period / year	13,244	13,416	13,416
Reserved during the period / year	1,461	1,527	2,910
Released to the statement of comprehensive income	(157)	(255)	(1,241)
Written off during the period / year	(996)	(270)	(1,841)
Balance at the end of the period / year	13,552	14,418	13,244

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

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and guarantees

The following disclosure provides a reconciliation by stage of the Bank's gross carrying / nominal amount and allowances for loans and advances to banks and customers, including loan commitments and guarantees. Movements are calculated on a quarterly basis and therefore fully capture stage movements between quarters. If movements were calculated on a year-to-date basis they would only reflect the opening and closing position of the financial instrument. The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL.

The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying customer risk rating ('CRR')/probability of default ('PD') movements of the financial instruments from stage transfers. This is captured, along with other credit quality movements in the 'Net new and further lending/(repayments) and changes in risk parameters' line item. This line also includes changes due to volume movements within the group's lending portfolio.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and guarantees at 30 June 2022;

	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 2022	1,332,815	4,625	874,613	16,756	45,924	22,607	2,253,352	43,988
-Transfers from stage 1 to stage 2	(59,702)	(240)	59,702	240	-	-	-	-
-Transfers from stage 2 to stage 1	374,791	830	(374,791)	(830)	-	-	-	-
-Transfers to stage 3	-	-	(13,381)	(2,700)	13,381	2,700	-	-
-Transfers from stage 3	-	-	2,574	1,013	(2,574)	(1,013)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(442)	-	1,163	-	45	-	766
Net new lending / (repayments) and changes to risk parameters	68,324	(1,435)	42,738	(2,379)	(8,872)	(567)	102,191	(4,381)
Assets written off	-	-	-	-	(2,413)	(1,558)	(2,413)	(1,558)
At 30 June 2022	1,716,228	3,338	591,455	13,263	45,446	22,214	2,353,130	38,815
ECL release for the period		1,877		1,216		522		3,615
Recoveries		-		-		1,637		1,637
Total ECL release for the period		1,877		1,216		2,159		5,252

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

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and guarantees at 30 June 2022 (continued);

	At 30 June 2022		For the period ended 30 June 2022
	Gross carrying / nominal amount	Allowance for ECL	ECL release / (charge)
	RO'000	RO'000	RO'000
As above	2,353,130	38,815	5,252
Other financial assets measured at amortised cost	174,974	364	256
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	2,528,104	39,179	5,508
Debt instruments measured at FVOCI (note 10)	322,194	289	388
Debt instruments measured at amortised cost (note 10)	205,878	4	(4)
Total allowance for ECL / total profit or loss ECL release for the period	3,056,175	39,472	5,892

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and guarantees at 30 June 2021;

	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 2021	1,511,035	9,608	784,579	20,616	52,892	27,198	2,348,506	57,422
-Transfers from stage 1 to stage 2	(379,322)	(790)	379,322	790	-	-	-	-
-Transfers from stage 2 to stage 1	257,506	4,198	(257,506)	(4,198)	-	-	-	-
-Transfers to stage 3	-	-	(3,075)	(858)	3,075	858	-	-
-Transfers from stage 3	-	-	1,564	491	(1,564)	(491)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(1,162)	-	1,017	-	17	-	(128)
Net new lending / (repayments) and changes to risk parameters	(32,123)	(1,661)	(20,395)	(3,432)	(430)	1,566	(52,948)	(3,527)
Assets written off	-	-	-	-	(7,063)	(6,793)	(7,063)	(6,793)
At 30 June 2021	1,357,096	10,193	884,489	14,426	46,910	22,355	2,288,495	46,974
ECL release / (charge) for the period		2,823		2,415		(1,583)		3,655
Recoveries		-		-		1,784		1,784
Total ECL release for the period		2,823		2,415		201		5,439

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

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and guarantees at 30 June 2021 (continued);

	At 30 June 2021		For the period ended 30 June 2021
	Gross carrying / nominal amount	Allowance for ECL	ECL release / (charge)
	RO'000	RO'000	RO'000
As above	2,288,495	46,974	5,439
Other financial assets measured at amortised cost	308,110	274	132
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	2,596,605	47,248	5,571
Debt instruments measured at FVOCI (note 10)	448,884	696	116
Debt instruments measured at amortised cost (note 10)	-	-	-
Total allowance for ECL / total profit or loss ECL release for the period	3,045,489	47,944	5,687

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and guarantees at 31 December 2021;

	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 2021	1,511,035	9,608	784,579	20,616	52,892	27,198	2,348,506	57,422
-Transfers from stage 1 to stage 2	(540,752)	(2,311)	540,752	2,311	-	-	-	-
-Transfers from stage 2 to stage 1	368,755	5,150	(368,755)	(5,150)	-	-	-	-
-Transfers to stage 3	-	-	(13,965)	(3,453)	13,965	3,453	-	-
-Transfers from stage 3	-	-	6,842	3,036	(6,842)	(3,036)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(1,628)	-	3,219	-	239	-	1,830
Net new lending / (repayments) and changes to risk parameters	(6,223)	(6,194)	(74,840)	(3,823)	(3,014)	3,989	(84,077)	(6,028)
Assets written off	-	-	-	-	(11,077)	(9,236)	(11,077)	(9,236)
At 31 December 2021	1,332,815	4,625	874,613	16,756	45,924	22,607	2,253,352	43,988
ECL release / (charge) for the year		7,822		604		(4,228)		4,198
Recoveries		-		-		3,415		3,415
Total ECL release for the year		7,822		604		(813)		7,613

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

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and guarantees at 31 December 2021 (continued);

	At 31 December 2021		For the year ended 31 December 2021
	Gross carrying / nominal amount	Allowance for ECL	ECL release / (charge)
	RO'000	RO'000	RO'000
As above	2,253,352	43,988	7,613
Other financial assets measured at amortised cost	306,210	648	(247)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	2,559,562	44,636	7,366
Debt instruments measured at FVOCI (note 13)	448,696	677	134
Total allowance for ECL/total profit or loss ECL charge for the year	3,008,258	45,313	7,500

Areas of special interest

Macro-economic Environment

The Ukraine / Russia conflict persisted throughout the first half of the year and retaliatory measures from western powers in the form of expanded sanctions and military aid to Ukraine have done little to drive a resolution. To the contrary, the protracted situation has led to further shortages of commodities which have impacted global prices for energy, wheat, steel and many other first necessity products, accelerating increased structural inflation and shortages. In China, growth prospects have been curtailed by strict lockdowns in a bid to achieve the zero-Covid-19 strategy imposed by the government with significant impacts on manufacturing output, though recent weeks have seen some partial alleviation of these measures. Finally, in the US, the Fed has tightened monetary policy three times already this year (March, May and June) in order to reduce excessive inflation growth, a direct result of the government's fiscal stimulus during Covid-19. We expect that the Fed will continue to rate hikes for the remainder of the year to achieve its inflation target.

Over the last few months, the effects of these three factors have translated over into global equity markets with significant drops across all economic sectors – the probability of a global recession is now deemed to be a real possibility.

Against this backdrop, on 2 April 2022, S&P upgraded Oman's rating to BB- with a stable outlook on the back of higher oil prices, rising hydrocarbon production and the government's reform program which are improving Oman's fiscal and external trajectory. At the time of publication, the rating agency expected government net debt to reach 12%, a sharp improvement from previous forecasts of above 30% and since then government debt is expected to have lowered further.

Their expectation is that GDP will grow by 4% in 2022, moderating to c.2.2% on average in 2023-2025. Whilst it has voiced a commitment to its budget, the government has also made some concessions against its original plans in light of growing inflation such as cutting electricity subsidies more gradually over 10 years rather than the original 5 and expanding the list of VAT exemptions from 93 items to 488. On 26 April 2022, along with a number of other countries in the region, Moody's changed Oman's outlook to stable from negative with similar growth forecasts as S&P.

On 22 May 2022, the Supreme Committee lifted all Covid-19 restrictions in Oman.

Management judgmental adjustments

Expected Credit Loss (ECL) impairment allowances recognised in the interim condensed financial information reflect the effect of a range of possible economic outcomes, calculated on a probability-weighted basis, based on the economic scenarios. The recognition and measurement of ECL involves the use of significant 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 by the use of management judgment, which may result in using alternative or additional economic scenarios and / or management adjustments.

The Ukraine/Russia supplemental scenario introduced in the 1Q22 Forward Economic Guidance (FEG) over and above the standard four economic scenarios, was replaced by a more generic Global Stagflation downward scenario. This scenario which caters for prolonged high oil prices, a high inflation environment, disruptions to supply chains and increased geopolitical tensions is only mildly impactful for Oman which derives 40% of GDP from oil, has continue subsidizing certain key consumer products and remains largely neutral on the global political scene.

The scenarios weighting as at 30 June 2022 and comparative periods are as below;

	30 June 2022	30 June 2021	31 December 2021
Consensus Central scenario	60%	70%	70%
Consensus Upside scenario	5%	5%	5%
Consensus Downside 1a scenario	20%	20%	20%
Downside 1b scenario	10%	-	-
Downside 2 scenario	5%	5%	5%

Downside 1b scenario was attributed to the new Global Stagflation scenario.

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

The outcome of these changes on the FEG modelled ECLs was not material and Oman remains largely insulated from the impacts of the war in Ukraine and of the rising inflation which is observed in many other parts of the world. From a sectoral standpoint, with the removal of all Covid-19 restrictions and a normalization of economic activity across the country, there has been release of ECL amounting to RO3.5 M. Should renewed economic stress be observed due to a resurgence of the pandemic, management may revise its position and dynamically take additional provisions.

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

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
0-5%	1,041,120	973,114	1,042,288
5-7%	335,350	351,467	296,897
7-10%	16,403	23,246	19,787
10-13%	2,198	3,480	2,037
More than 13%	46,315	39,196	40,816
Total	1,441,386	1,390,503	1,401,825

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

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
0-6 months	282,098	279,582	379,007
6-12 months	85,255	134,506	34,422
1-3 years	255,410	201,970	244,301
3-5 years	173,713	266,123	182,191
More than 5 years	595,370	451,164	507,267
Total	1,391,846	1,333,345	1,347,188

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Personal and consumer loans	500,385	441,673	458,488
Corporate and commercial			
Manufacturing	153,951	181,524	164,232
Import trade	129,541	134,965	124,952
Construction	102,919	80,773	106,082
Services	80,492	104,869	99,129
Mining and quarrying	76,408	44,053	32,140
Electricity, gas, water, transportation and communication	53,593	78,512	54,282
Wholesale and retail trade	39,015	31,918	52,190
Others	305,082	291,616	309,728
	941,001	948,230	942,735
Financial institutions	-	600	602
Total gross loans and advances	1,441,386	1,390,503	1,401,825
ECL Allowances	(35,988)	(42,740)	(41,393)
Reserved interest	(13,552)	(14,418)	(13,244)
Net loans and advances	1,391,846	1,333,345	1,347,188
Non-Performing Loans (NPL)	41,738	44,383	42,944

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

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

As of 30 June 2022	As per CBO norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Change in expected credit losses and other credit impairment charges*	518	5,892	5,374
Provisions required**	52,423	53,024	601
Gross NPL ratio (percentage)	2.90%	2.90%	-
Net NPL ratio (percentage)	0.56%	0.53%	(0.03)%

At 30 June 2021	As per CBO norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Change in expected credit losses and other credit impairment charges*	2,930	5,687	2,757
Provisions required**	52,939	62,362	9,423
Gross NPL ratio (percentage)	3.19%	3.19%	-
Net NPL ratio (percentage)	0.73%	0.71%	(0.02)%

At 31 December 2021	As per CBO norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Change in expected credit losses and other credit impairment charges*	3,017	7,500	4,483
Provisions required**	52,554	58,557	6,003
Gross NPL ratio (percentage)	3.06%	3.06%	-
Net NPL ratio (percentage)	0.58%	0.59%	0.01%

* Change in expected credit losses and other credit impairment charges reported in these interim condensed financial information is based on IFRS 9 as it is more than the CBO provision requirement.

**Provision required includes the reserved interest of RO13.5 million (30 June 2021: RO14.4 million and 31 December 2021 RO13.2 million)

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 2022

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Net carrying amount RO'000	Reserve interest as per CBO norms RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
Standard	Stage 1	990,723	13,493	3,014	10,479	987,709	183
	Stage 2	372,908	3,845	7,691	(3,846)	365,217	369
	Stage 3	-	-	-	-	-	-
		1,363,631	17,338	10,705	6,633	1,352,926	552
Special mention	Stage 1	-	-	-	-	-	-
	Stage 2	34,030	344	3,320	(2,976)	30,710	217
	Stage 3	1,988	438	359	79	1,629	61
		36,018	782	3,679	(2,897)	32,339	278
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	885	238	354	(116)	531	41
		885	238	354	(116)	531	41
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	40	20	22	(2)	18	5
		40	20	22	(2)	18	5
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	40,813	20,493	21,229	(736)	19,584	12,676
		40,813	20,493	21,229	(736)	19,584	12,676
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,423,713	-	761	(761)	1,422,952	-
	Stage 2	189,355	-	2,472	(2,472)	186,883	-
	Stage 3	1,720	-	250	(250)	1,470	-
		1,614,788	-	3,483	(3,483)	1,611,305	-
Total	Stage 1	2,414,436	13,493	3,775	9,718	2,410,661	183
	Stage 2	596,293	4,189	13,483	(9,294)	582,810	586
	Stage 3	45,446	21,189	22,214	(1,025)	23,232	12,783
	Total	3,056,175	38,871	39,472	(601)	3,016,703	13,552

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	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
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7) = (3)-(5)	(8)
	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
Total		3,045,489	38,521	47,944	(9,423)	2,997,545	14,418

Comparison of provision held as per IFRS 9 and provision required as per CBO norms (as per CBO illustrative disclosure) as of 31 December 2021

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
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7) = (3)-(5)	(8)
	Stage 1	1,810,251	10,260	4,925	5,335	1,805,326	142
	Stage 2	1,152,083	6,662	17,781	(11,119)	1,134,302	390
	Stage 3	45,924	22,388	22,607	(219)	23,317	12,712
Total		3,008,258	39,310	45,313	(6,003)	2,962,945	13,244

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

Restructured loans and advances (as per CBO illustrative disclosure) as of 30 June 2022

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Net carrying amount RO'000	Reserve interest as per CBO norms RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
	Stage 1	21,235	212	67	145	21,168	-
	Stage 2	25,039	250	1,357	(1,107)	23,682	40
Classified as performing	Stage 3	1,988	438	359	79	1,629	61
Sub Total		48,262	900	1,783	(883)	46,479	101
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Classified as non-performing	Stage 3	16,453	10,588	11,396	(808)	5,057	1,312
Sub Total		16,453	10,588	11,396	(808)	5,057	1,312
	Stage 1	21,235	212	67	145	21,168	-
	Stage 2	25,039	250	1,357	(1,107)	23,682	40
	Stage 3	18,441	11,026	11,755	(729)	6,686	1,373
Total	Total	64,715	11,488	13,179	(1,691)	51,536	1,413

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	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
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
	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
Total		97,733	11,350	14,457	(3,107)	83,276	836

Restructured loans and advances (as per CBO illustrative disclosure) as of 31 December 2021

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
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
	Stage 1	61,581	616	816	(200)	60,765	-
	Stage 2	8,336	83	1,073	(990)	7,263	57
	Stage 3	17,702	10,991	11,612	(621)	6,090	1,012
Total		87,619	11,690	13,501	(1,811)	74,118	1,069

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

10 Financial investments

Financial investments details are provided as follows:

	Fair value	Fair value	Fair value	Carrying value	Carrying value	Carrying value	Cost	Cost	Cost
	30 June	30 June	31 December	30 June	30 June	31 December	30 June	30 June	31 December
	2022	2021	2021	2022	2021	2021	2022	2021	2021
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Marketable securities – MSX									
Government bonds	77,786	77,296	77,711	77,786	77,296	77,711	76,818	76,785	76,819
Unquoted and other investments									
Treasury bills	450,286	371,589	370,985	450,286	371,589	370,985	450,306	371,618	371,000
Unquoted Omani shares	-	210	259	-	210	259	-	260	260
Unquoted foreign shares	-	7	7	-	7	7	-	7	7
	450,286	371,806	371,251	450,286	371,806	371,251	450,306	371,885	371,267
Total	528,072	449,102	448,962	528,072	449,102	448,962	527,124	448,670	448,086

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

Carrying amount of financial investments

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Financial investments measured at fair value through other comprehensive income			
Treasury bills	244,408	371,589	370,985
Government bonds	77,786	77,296	77,711
Other investments	-	200	200
	322,194	449,085	448,896
Debt instruments measured at amortised cost			
Treasury bills	205,878	-	-
Financial investments measured at fair value through profit or loss			
Equity investments	-	17	66
Total	528,072	449,102	448,962

11 Other assets

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Acceptances	36,437	24,757	23,454
ECL on acceptances	(227)	(96)	(612)
Acceptances (net of ECL)	36,210	24,661	22,842
Derivatives-positive mark-to-market	3,428	9,978	6,040
Right-of-use assets	-	2,795	2,396
Prepayments	508	757	393
Others	16,393	1,090	2,407
Total	56,539	39,281	34,078

12 Intangible assets

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Computer Software*	1,350	-	3,058
Less: amortised	(18)	-	-
Less: impairment	-	-	(3,058)
Total	1,332	-	-

*Intangible assets of RO1.4 M is software development cost from HSBC affiliates as of 30 June 2022. The costs include RO0.8 M of work in progress which will be capitalised upon completion of the project.

13 Property and equipment

RO 0.2 M of property and equipment were added during the period (30 June 2021: RO0.9 M). Property and equipment disposed of during the period was RO 0.02 M (30 June 2021: RO0.5 M).

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

14 Deposits from customers

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Deposits details are as follows:			
Current and call	966,132	988,081	1,021,550
Time deposits	575,942	511,173	476,978
Savings	393,490	419,747	399,685
Others	3,448	3,940	2,881
Total	1,939,012	1,922,941	1,901,094

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

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
0-6 months	663,860	723,292	660,642
6-12 months	247,006	252,520	290,611
1-3 years	525,977	398,914	428,588
3-5 years	148,322	170,105	149,626
Over 5 years	353,847	378,110	371,627
Total	1,939,012	1,922,941	1,901,094

The interest rate bands of deposits are as follows:

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
0-2%	1,430,555	1,508,009	1,482,382
2-5%	508,457	414,932	418,712
Total	1,939,012	1,922,941	1,901,094

15 Other liabilities

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Acceptances	36,437	24,757	23,454
Derivatives - negative mark-to-market	8,374	665	1,326
Accruals and deferred income	4,478	4,354	6,103
ECL on off balance sheet exposure and other commitments	2,799	4,215	2,565
Provisions	300	418	379
Retirement benefit liability	1,491	1,484	1,464
Others	6,657	12,162	11,201
Total	60,536	48,055	46,492

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

16 Contingent liabilities, commitments and derivatives

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Undrawn unconditionally cancellable commitments*	440,524	535,898	465,935
Undrawn unconditionally non-cancellable commitments	92,293	78,840	76,296
Forward foreign exchange contracts	123,702	82,760	21,125
Interest rate swaps	246,015	222,915	246,015
Documentary credits	76,984	60,342	66,862
Guarantees and performance bonds	458,640	472,506	457,643
Total	1,438,158	1,453,261	1,333,876

* Undrawn unconditionally cancellable commitments of RO107.3 M (30 June 2021: RO130.2 M. 31 December 2021: RO113 M) are considered as part of loan commitments for IFRS 9.

As at 30 June 2022, 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.

17 Fair values of financial instruments carried at fair value

Fair values of financial assets and liabilities are determined according to the following hierarchy:

Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that the Bank can access at the measurement date.

Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

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

	Valuation techniques		
	Level 1	Level 2	Total
	RO'000	RO'000	RO'000
At 30 June 2022			
Assets			
Derivatives	-	3,428	3,428
Financial investments at fair value through other comprehensive income	-	322,194	322,194
Financial investments at fair value through profit or loss	-	-	-
Liabilities			
Derivatives	-	8,374	8,374
Deposits from customers	-	261,570	261,570
At 30 June 2021			
Assets			
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
Liabilities			
Derivatives	-	665	665
Deposits from customers	-	235,756	235,756

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

At 31 December 2021	Level 1 RO'000	Level 2 RO'000	Total RO'000
Assets			
Derivatives	-	6,040	6,040
Financial investments at fair value through other comprehensive income	96,248	352,648	448,896
Financial investments at fair value through profit or loss	-	66	66
Liabilities			
Derivatives	-	1,326	1,326
Deposits from customers	-	258,368	258,368

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each semi-annual reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

During 2022 there was nil (June 2021: nil) transfer from Level 2 to Level 1 Financial Investments.

Fair value adjustments

Fair value adjustments are adopted when the Bank considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required.

Bid-offer

IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit and debit valuation adjustment

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that the Bank may not receive the full market value of the transactions.

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the group may default, and that the Bank may not pay full market value of the transactions.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplified set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

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

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.

30 June 2022	Positive fair value	Negative fair value	Total notional amount
	RO'000	RO'000	RO'000
Derivatives:			
Forward foreign exchange contracts	218	209	123,702
Interest rate swaps*	3,210	8,165	246,015
	3,428	8,374	369,717
30 June 2021:	Positive fair value	Negative fair value	Total notional amount
	RO'000	RO'000	RO'000
Derivatives:			
Forward foreign exchange contracts	1,406	67	82,761
Interest rate swaps*	8,572	598	222,915
	9,978	665	305,676
31 December 2021:	Positive fair value	Negative fair value	Total notional amount
	RO'000	RO'000	RO'000
Derivatives:			
Forward foreign exchange contracts	107	102	21,125
Interest rate swaps*	5,933	1,224	246,015
	6,040	1,326	267,140

*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.

Hedge accounting derivatives

Fair value hedges

The Bank enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss.

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

Hedging instrument by hedged risk

	Hedging Instrument Carrying Amount			Statement of financial position presentation	Change in fair value ²
	Notional Amount ¹	Assets	Liabilities		
Hedged Risk	RO'000	RO'000	RO'000	RO'000	RO'000
Interest Rate	246,015	3,210	8,165	Derivative	(9,428)
At 30 June 2022	246,015	3,210	8,165		(9,428)

	Hedging Instrument Carrying Amount			Statement of financial position presentation	Change in fair value ²
	Notional Amount ¹	Assets	Liabilities		
Hedged Risk	RO'000	RO'000	RO'000	RO'000	RO'000
Interest Rate	222,915	8,572	598	Derivative	(2,805)
At 30 June 2021	222,915	8,572	598		(2,805)

	Hedging Instrument Carrying Amount			Statement of financial position presentation	Change in fair value ²
	Notional Amount ¹	Assets	Liabilities		
Hedged Risk	RO'000	RO'000	RO'000	RO'000	RO'000
Interest Rate	246,015	5,933	1,224	Derivative	(5,791)
At 31 December 2021	246,015	5,933	1,224		(5,791)

1 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.

2 Used in effectiveness testing comprising the full fair value change of the hedging instrument

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.

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

Interbank Offered Rates ('IBOR') transition

Following the UK's Financial Conduct Authority ('FCA') announcement in July 2017 that it would no longer continue to persuade, or require panel banks to submit rates for the London interbank offered rate ('Libor') after 2021, we have been actively working to transition legacy contracts from Libor's and meet client needs for new replacement rates.

For 2022, the focus has been to transition the USD Libor-linked portfolio following ICE Benchmark Administration Limited's ('IBA') decision to continue to publish US dollar Libor for its most widely used settings until June 2023.

The Bank is part of HSBC Group's Libor transition programme with the objective of facilitating an orderly transition from Libors for the Bank and its clients. Through 2021, our Libor transition programme ('the programme') developed IT and new near risk free replacement rate ('RFR') product capabilities, and implemented operational processes and controls to manage any heightened financial and non-financial risks whilst actively engaging with our clients to discuss options to transition their legacy contracts. HBON met regulatory milestones to cease issuance of new Libor contracts for the demising benchmarks through 2021, and expects to meet regulatory timelines to complete transition of our US dollar legacy contracts by June 2023.

For US dollar Libor and other demising Libors, we continue to be exposed to and actively monitor, risks including:

Regulatory compliance risk: If we neglect to act appropriately in the transition of legacy contracts we may observe an increase in client complaints resulting from a breach of duty to our clients.

Resilience risk: We may be exposed to increased operational risks due to changes in manual and automated processes, and the transition of large volumes of contracts.

Legal risk: We may be exposed to an increased risk of litigation as a result of Libor transition, which may give rise to contractual, sales or other claims.

Model risk: As a result of required changes to our models there is a risk that model output is adversely affected, leading to increased regulatory notifications or incorrect model outputs.

Market risk: As a result of differences in Libor and RFR interest rates, we are exposed to basis risk resulting from the asymmetric adoption of rates across assets, liabilities and products.

Based on our experience in transitioning contracts referencing Libors that demised from the end of 2021, and an assessment of the risks that relate to the transition of US dollar Libor contracts, we do not believe that our risk position has materially changed during the first half of 2022. Increased market and industry use of alternative rates, including the Secured Overnight Funding Rate ('SOFR'), have further reduced potential risks related to transition away from US dollar Libor. We will continue to monitor market initiatives, and have developed controls and plans to help mitigate these risks. We will monitor these risks through the development of our product capabilities and the transition of legacy contracts, with a focus on fair client outcomes.

Throughout the remainder of 2022, and into 2023, we are committed to engaging with our clients and investors to complete an orderly transition of contracts that reference the remaining demising Libors.

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

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 from 1 January 2020.

Financial instruments impacted by Ibor reform:

	Financial instruments yet to transition to alternative benchmarks, by main benchmark		
	USD Libor		
	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Non-derivative financial assets			
Loans and advances to customers	224,031	197,250	214,774
Derivative notional contract amount			
Interest rate	134,750	134,750	134,750

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 30 June 2023, the date by which the Libor is expected to cease; and
- are recognised on the Bank's consolidated balance sheet.

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

18 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of loans and advances customers, financial investments, deposits by banks, customer accounts are explained in Bank's 31 December 2021 financial statements, note number 26.1.

	Valuation techniques			Total fair value RO'000	Carrying amount RO'000
	Level 1	Level 2	Level 3		
	RO'000	RO'000	RO'000		
Assets and liabilities					
At 30 June 2022					
Assets					
Loans and advances to customers – net	-	-	1,364,628	1,364,628	1,391,846
Liabilities					
Deposits from customers	-	1,933,335	-	1,933,335	1,939,012

	Valuation techniques			Total fair value RO'000	Carrying amount RO'000
	Level 1	Level 2	Level 3		
	RO'000	RO'000	RO'000		
Assets and liabilities					
At 30 June 2021					
Assets					
Loans and advances to customers – net	-	-	1,295,729	1,295,729	1,333,345
Liabilities					
Deposits from customers	-	1,927,632	-	1,927,632	1,922,941

	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 2021					
Assets					
Loans and advances to customers – net	-	-	1,324,637	1,324,637	1,347,188
Liabilities					
Deposits from customers	-	1,906,558	-	1,906,558	1,901,094

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 interim condensed financial information (unaudited) (continued)

19 Asset liability mismatch

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

Maturities	30 June 2022			30 June 2021			31 December 2021		
	Assets	Liabilities and equity		Assets	Liabilities and equity		Assets	Liabilities and equity	
		RO'000	Mismatch RO'000		RO'000	Mismatch RO'000		RO'000	Mismatch RO'000
0-6 months	1,174,710	781,489	393,221	1,158,918	821,561	337,357	1,283,622	760,535	523,087
6-12 months	101,450	263,713	(162,263)	159,092	264,159	(105,067)	34,625	309,147	(274,522)
1-3 years	298,023	525,977	(227,954)	246,321	398,914	(152,593)	276,199	428,588	(152,389)
3-5 years	193,695	148,322	45,373	296,462	170,105	126,357	207,210	149,626	57,584
more than 5 years	642,462	690,839	(48,377)	503,132	709,186	(206,054)	547,591	701,351	(153,760)
Total	2,410,340	2,410,340	-	2,363,925	2,363,925	-	2,349,247	2,349,247	-

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

20 Exposure to credit risk

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

	30 June 2022		30 June 2021		31 December 2021	
	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	138,537	(136)	283,353	(178)	282,756	(35)
Due from banks	268,856	(27)	234,968	(20)	213,730	(30)
Loans and advances to customers						
-WPB	499,464	(7,797)	440,144	(9,452)	457,693	(7,706)
-Wholesale	928,370	(28,191)	935,941	(33,288)	930,888	(33,687)
Financial investments at amortised cost	205,878	(4)	-	-	-	-
Other assets	36,437	(229)	24,757	(96)	23,454	(613)
Total gross carrying amount on balance sheet	2,077,542	(36,384)	1,919,163	(43,034)	1,908,521	(42,071)
Loans and other credit related commitments	624,315	(2,799)	663,024	(4,214)	637,797	(2,565)
Total nominal amount off balance sheet	624,315	(2,799)	663,024	(4,214)	637,797	(2,565)
	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	322,194	(289)	448,885	(696)	448,696	(677)

21 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (30 June 2021 and 31 December 2021 – 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 2021 and 31 December 2021 – 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 2022	30 June 2021	31 December 2021
	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)

The following tables set out the distribution of HBON shares ownership:

	30 June 2022		
	Number of shareholders	Total shares	% of Share Capital
% of Shareholding			
5% and above	1	1,020,159,523	51.0%
Less than 5%	3,121	980,153,267	49.0%
Total	3,122	2,000,312,790	100.0%

	30 June 2021		
	Number of shareholders	Total shares	% of Share Capital
% of Shareholding			
5% and above	1	1,020,159,523	51.0%
Less than 5%	3,247	980,153,267	49.0%
Total	3,248	2,000,312,790	100.0%

	31 December 2021		
	Number of shareholders	Total shares	% of Share Capital
% of Shareholding			
5% and above	1	1,020,159,523	51.0%
Less than 5%	3,208	980,153,267	49.0%
Total	3,209	2,000,312,790	100.0%

22 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.

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

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

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

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

The Bank enter into transactions with other HSBC affiliates, as part of the normal course of business, such as banking and operational services. In particular, as a member of one of the world's largest financial services organizations, 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.

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

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
30 June 2022					
Loans and advances	-	-	4,610	20,356	24,966
Current, deposit and other accounts	-	3,801	157	5,540	9,498
Letters of credit and guarantees	-	104,294	-	6,306	110,600
Acceptances	-	-	-	590	590
Due from banks	-	45,905	-	-	45,905
Due to banks ¹	-	27,658	-	-	27,658
Collateral received	-	38,660	-	-	38,660
Purchase of intangible assets (software) ²	-	1,350	-	-	1,350
For the period ended 30 June 2022	-				
Net fee income ³	-	(12)	-	-	(12)
General and administrative expenses ⁴	-	(7,871)	(19)	(44)	(7,934)

- 1 Due to banks includes Vostro balances of RO2.9 M from HSBC affiliates and accrual of RO24.8 M for the expenses payable to HSBC Affiliates as of 30 June 2022.
- 2 Intangible assets of RO1.4 M is software development cost from HSBC affiliates as of 30 June 2022. The costs include RO0.8 M of work in progress which will capitalised upon completion of the project. Further Bank has RO1.6 M of Capital commitments related to intangible assets (software) with HSBC affiliates.
- 3 Net fee income includes fee expenses of RO0.3 M incurred for the indemnity received as a collateral from HSBC affiliates.
- 4 General and administrative expenses include the services obtained from HSBC Group companies, including but not limited to, the sharing in the cost of development for technology platforms, advertising, marketing research, training and other operational areas.

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
30 June 2021					
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 ¹	-	17,514	-	-	17,514
Collateral received	-	62,230	-	-	62,230
For the period ended 30 June 2021					
Net fee income ²	-	(146)	-	-	(146)
General and administrative expenses ³	-	(8,989)	(16)	(283)	(9,288)

- 1 Due to banks includes Vostro balances of RO 13.7 M from HSBC affiliates and accrual of RO 3.8 M for the expenses payable to HSBC Affiliates as of 30 June 2021.
- 2 Net fee income includes fee expenses of RO0.3 M incurred for the indemnity received as a collateral from HSBC affiliates.
- 3 General and administrative expenses include the services obtained from HSBC Group companies, including but not limited to, the sharing in the cost of development for technology platforms, advertising, marketing research, training and other operational areas.

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
As at 31 December 2021					
Loans and advances	-	-	405	70,221	70,626
Current, deposit and other accounts	-	3,504	276	20,100	23,880
Letters of credit and guarantees	-	160,713	-	6,866	167,579
Acceptances	-	-	-	37	37
Due from banks	-	41,793	-	-	41,793
Due to banks ¹	-	23,564	-	-	23,564
Collateral received	-	47,611	-	-	47,611

1. Due to banks includes Vostro balances of RO20.1 million from HSBC affiliates and accrual of RO3.4 million for the expenses payable to HSBC affiliates as of 31 December 2021.

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

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
Purchase of loans and advances	48,125	48,125	48,125

Related party loans and advances bear interest at rates between 3% p.a. and 7% p.a. (30 June 2021: between 3% p.a. and 7% p.a.). Related party deposits bear interest at rates between 0.1% p.a. and 1.5% p.a. (30 June 2021: between 0.1% p.a. and 0.7% p.a.).

Compensation of key management personnel

	Six month period ended 30 June 2022	Six month period ended 30 June 2021
	RO'000	RO'000
Wages, salaries and other short term benefits	701	743
Post-employment benefits	114	46
Total	815	789

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

24 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 (h).

Profit / (loss) for the period	30 June 2022				
	CMB	WPB	GB&M	Corporate center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income					
- External	7,540	13,108	5,807	(91)	26,364
- Internal	107	774	(936)	55	-
	7,647	13,882	4,871	(36)	26,364
Net fee income	1,746	1,625	1,956	(75)	5,252
Net trading income	677	714	1,810	-	3,201
Other income	64	(3)	180	(19)	222
Net operating income before change in expected credit losses and other credit impairment charges	10,134	16,218	8,817	(130)	35,039
Change in expected credit losses and other credit impairment charges	2,340	(92)	3,644	-	5,892
Net operating income / (loss)	12,474	16,126	12,461	(130)	40,931
Total operating expenses	(5,194)	(14,405)	(3,890)	362	(23,127)
Profit before tax	7,280	1,721	8,571	232	17,804
Reportable segment assets	968,031	769,503	564,799	108,008	2,410,341
Reportable segment liabilities	886,984	580,147	564,609	29,589	2,061,329

Profit / (loss) for the period	30 June 2021				
	CMB	WPB	GB&M	Corporate center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income					
- External	6,910	12,317	5,793	(119)	24,901
- Internal	588	1,143	(1,839)	108	-
	7,498	13,460	3,954	(11)	24,901
Net fee income	1,569	1,308	1,944	(72)	4,749
Net trading income	874	773	1,714	-	3,361
Other income	131	(7)	1	12	137
Net operating income before change in expected credit losses and other credit impairment charges	10,072	15,534	7,613	(71)	33,148
Change in expected credit losses and other credit impairment charges	1,587	(528)	4,628	-	5,687
Net operating income / (loss)	11,659	15,006	12,241	(71)	38,835
Total operating expenses	(5,896)	(15,374)	(3,542)	(1,916)	(26,728)
Profit / (loss) before tax	5,763	(368)	8,699	(1,987)	12,107
Reportable segment assets	1,015,177	635,430	596,608	116,710	2,363,925
Reportable segment liabilities	851,647	626,654	524,920	23,809	2,027,030

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

Balance sheet information	30 June 2022				
	Corporate center				Total
	CMB RO'000	WPB RO'000	GB&M RO'000	RO'000	
Loans and advances to customers (net)	541,917	491,688	358,241	-	1,391,846
Total assets	968,031	769,503	564,799	108,008	2,410,341
Deposits from customer	844,503	573,575	520,934	-	1,939,012
Total liabilities	886,984	580,147	564,609	29,589	2,061,329
30 June 2021					
Loans and advances to customers (net)	494,841	430,692	407,812	-	1,333,345
Total assets	1,015,177	635,430	596,608	166,710	2,363,925
Deposits from customer	821,997	621,710	479,234	-	1,922,941
Total liabilities	851,647	626,654	524,920	23,809	2,027,030
31 December 2021					
Loans and advances to customers (net)	537,321	449,986	359,881	-	1,347,188
Total assets	1,068,512	656,087	529,609	95,039	2,349,247
Deposits from customer	875,069	583,275	442,750	-	1,901,094
Total liabilities	899,657	588,486	487,873	27,744	2,003,760

Other financial information

Net operating income by global business	30 June 2022				
	Corporate center				Total
	CMB RO'000	WPB RO'000	GB&M RO'000	RO'000	
Net operating income ¹					
- external	10,027	15,444	9,753	(185)	35,039
- internal	107	774	(936)	55	-
30 June 2021					
Net operating income					
- external	9,484	14,391	9,452	(179)	33,148
- internal	588	1,143	(1,839)	108	-

¹ Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.

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

25 Capital Adequacy Ratio (CAR)

The Bank's objective is to ensure that capital resources are at all times adequate and efficiently used. Bank's 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. The Bank's policy on capital management is underpinned by a capital management process and the internal capital adequacy assessment process, which enables it to manage its capital in a consistent manner.

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 CAR of 12.25% including capital conservation buffer. (30 June 2021: 12.25% and 31 December 2021:12.25%) 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. 0% for 2022) and incremental Stage 2 ECLs of 2020, 2021 and 2022 to be added back 60% in 2022 and same will be phase-out by 2024.

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
CET 1 / Tier 1 capital	329,140	321,034	330,783
Tier 2 capital (T2)	3,775	13,720	10,307
Total regulatory capital	332,915	334,754	341,090
Risk-weighted assets	1,559,262	1,548,716	1,500,051
CET 1 / Tier 1 capital ratio	21.11%	20.73%	22.05%
Total CAR	21.35%	21.61%	22.74%

If the bank would not have applied the prudential filter as explained above, the Capital adequacy ratio for 30 June 2022 works out as below;

	30 June 2022	30 June 2021	31 December 2021
	RO'000	RO'000	RO'000
CET 1 / Tier 1 capital	329,140	321,034	330,783
Tier 2 capital (T2)	3,775	13,484	8,481
Total regulatory capital	332,915	334,518	339,264
Risk-weighted assets	1,559,262	1,548,716	1,500,051
CET 1 / Tier 1 capital ratio	21.11%	20.73%	22.05%
Total CAR	21.35%	21.60%	22.62%

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

26 Cash and cash equivalents

	30 June 2022 RO'000	30 June 2021 RO'000
26(a) Non-cash items included in profit before tax		
Interest expense on lease	81	76
Change in expected credit losses and other credit impairment charges	(5,892)	(5,687)
Depreciation and impairment of property, equipment and right-of-use assets	896	1,293
Amortisation of intangible assets	18	-
Amortisation of discount on financial investment	(594)	(73)
Employer's current service cost with interest	92	127
Loss on disposal of property and equipment	15	5
Total	(5,384)	(4,259)
26(b) Change in operating assets		
	30 June 2022 RO'000	30 June 2021 RO'000
Change in loans and advances to customers-net	(39,150)	35,808
Change in other assets	(25,514)	(3,227)
Total	(64,664)	32,581
26(c) Change in operating liabilities		
	30 June 2022 RO'000	30 June 2021 RO'000
Change in due to banks	5,676	(16,176)
Change in deposits from customers	37,918	17,170
Change in other liabilities	14,746	(3,120)
Total	58,340	(2,126)
26(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 2022 RO'000	30 June 2021 RO'000
Interim condensed statement of financial position (unaudited) comprise:		
Cash and balances with central bank	138,401	283,175
Due from banks	268,829	234,948
Financial investments - original maturities of three months or less	219,737	306,841
Total	626,967	824,964

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

27 Corresponding figures

Cash and cash equivalent in the statement of cash flow as at 31 December 2020, has been restated in accordance with IFRS International Interpretations Committee discussion as below (refer note 26(d)):

	As previously stated	Restated
	RO'000	RO'000
Statement of financial position items comprise:		
Cash and balances with central bank	220,485	220,485
Due from banks	227,448	227,448
Financial investments - original maturities of three months or less	415,548	415,548
Due to banks	(63,774)	-
	799,707	863,481

Such reclassifications have not resulted in any change in the prior period reported primary statements other than the impact on the operating cash flows within the cash flow statements for the period.

28 Events after the balance sheet date

The Board of Directors of HSBC Oman agreed to enter into a non-binding memorandum of understanding with Sohar International, dated 25 July 2022, on proceeding to exclusive discussions in relation to the possible merger between the two entities.

The ongoing exclusive discussions, negotiations and the potential merger shall remain subject to due diligence and entry into definitive agreements, in addition to obtaining final approvals from the banks' respective Boards, Regulators and Shareholders.

HSBC Oman has been informed by HSBC Group, its major shareholder, of its intention for HSBC Bank Middle East Limited ("HBME") to establish a new wholly owned banking branch in Oman. If the proposed merger discussions were to lead to a binding agreement, HBME would then request regulatory approvals for the setup of this new branch.

29 Other Information

Liquidity coverage ratio (LCR)

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 a minimum LCR of 100% for 2022 (for 30 June 2021: 100%) in accordance with CBO stipulated guidelines. The Bank's average LCR as of 30 June 2022 was 224% (30 June 2021 – 258%)

Liquidity coverage ratio disclosure for the period ended 30 June 2022:

		30 June 2022	
		Total Unweighted Value (average*) RO'000	Total Weighted Value (average*) RO'000
High quality liquid assets			
1	Total High quality liquid assets (HQLA)		641,898
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	584,670	43,539
3	- Stable deposits	298,573	14,929
4	- Less stable deposits	286,097	28,610
5	Unsecured wholesale funding, of which:	1,024,264	452,105
6	- Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	- Non-operational deposits (all counterparties)	1,024,264	452,105
8	- Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	86,565	8,451
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	86,565	8,451
14	Other cash outflows	18,875	18,875
15	Other contingent funding obligations	895,953	44,798
16	Total cash outflows (2+5+10+14+15)	-	567,768
Cash inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	271,683	261,957
19	Other cash inflows	19,127	19,127
20	Total cash inflows (17+18+19)	290,810	281,084
21	Total HQLA	-	641,898
22	Total net cash outflows (16-20)	-	286,684
23	Liquidity coverage ratio (21/22)	-	224%

*simple average of daily observations over the last three month (Apr – Jun 2022).

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

Net Stable Funding Ratio (NSFR)

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 Banks are required to maintain a minimum NSFR of 100% for 2022 (for 30 June 2021: 100%) in accordance with CBO stipulated guidelines. The Bank's NSFR as of 30 June 2022 was 148% (30 June 2021 – 152.0%)

Net Stable Funding Ratio disclosure for the period ended 30 June 2022:

Available Stable funding (ASF) items		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
		RO'000	RO'000	RO'000	RO'000	RO'000
1	Capital:	352,039	-	-	-	352,039
2	Regulatory capital	336,330	-	-	-	336,330
3	Other capital instruments	15,709	-	-	-	15,709
4	Retail deposits and deposits from small business customers	544,696	5,484	8,505	14,172	531,440
5	Stable deposits	289,018	4	7	-	274,577
6	Less stable deposits	255,678	5,480	8,498	14,172	256,863
7	Wholesale funding:	900,520	77,088	7,792	434,875	927,575
8	Operational deposits	54,119	-	-	-	27,060
9	Other wholesale funding	846,401	77,088	7,792	434,875	900,515
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	31,974	42,032	1,887	5,124	-
12	NSFR derivative liabilities	-	-	-	4,946	-
13	All other liabilities and equity not included in above categories	31,974	37,086	1,887	5,124	-
14	Total ASF	-	-	-	-	1,811,054
Require Stable Funding (RSF) items						
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	26,404
16	Deposits held at other financial institutions for operational purposes	41,209	-	-	-	20,605
17	Performing loans and securities:	-	626,207	73,991	927,098	1,039,974
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	-	227,647	-	-	34,147
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	-	396,908	72,028	809,504	943,954
21	- With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	1,652	1,963	117,594	61,873
23	- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	1,652	1,963	92,408	60,065

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	-	-	-	-	-
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other Assets:	34,662	34,549	1,887	15,526	86,624
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	-	-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	34,662	34,549	1,887	15,526	86,624
32	Off-balance sheet items	-	578,388	141,854	348,199	53,422
33	TOTAL RSF	-	-	-	-	1,227,029
34	NET STABLE FUNDING RATIO (%)	-	-	-	-	148

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

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 Banks are required to maintain a minimum Leverage ratio of 4.5% for 2022 (for 30 June 2021: 4.5%) in accordance with CBO stipulated guidelines. The Bank's leverage ratio as of 30 June 2022 was 11.6% (30 June 2021 – 11.0%)

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

Item	As at 30.06.2022
1 Total consolidated assets as per published financial statements	2,410,341
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	2,296
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)	433,389
7 Other adjustments	(2,614)
8 Leverage ratio exposure	2,843,412

Table 2: Leverage ratio common disclosure template

Item	As at 30.06.2022
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,406,913
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(2,614)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,404,299
Derivative Exposures	
4 Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	3,428
5 Add-on amounts for PFE associated with all derivatives transactions	2,296
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)	5,724
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	1,068,439
18 (Adjustments for conversion to credit equivalent amounts)	(635,050)
19 Off-balance sheet items (sum of lines 17 and 18)	433,389
Capital and total exposures	
20 Tier 1 capital	330,552
21 Total exposures (sum of lines 3, 11, 16 and 19)	2,843,412
Leverage Ratio	
22 Basel III leverage ratio (%)	11.6

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