

HSBC Bank Oman S.A.O.G.

Interim Condensed Financial Information

30 September 2022



Interim Condensed Financial Information – 30 September 2022

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Presentation of information

This document comprises the Interim Condensed Financial Information – 30 September 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, the Auditor's review report and the Summary of Unaudited Results.

Board of Directors' Report for the nine months ended 30 September 2022

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Bank's financial results for the nine months ended 30 September 2022.

Performance Summary

Our year to date performance shows a 68.6% increase in net profit to RO23.6 M compared with RO14.0 M for the same period in 2021. This has been primarily driven by 9.4% growth in net operating income (before Expected Credit Losses "ECL") and lower operating expenses.

Net interest income was up 8.7% to RO41.4 M for the period ended 30 September 2022 compared with RO38.1 M for the same period in 2021 mainly due to higher interest income from the favourable interest rate environment partly offset by higher interest expense on deposits. Net fee income increased by 14.3% to RO8.0 M for the period ended 30 September 2022 compared with RO7.0 M for the same period in 2021 mainly due to higher fees from cards.

Net trading income was RO4.8 M for the period ended 30 September 2022 which remained flat year on year.

A net release of RO7.8 M has been reported to the Bank's ECL and other credit impairment charges compared with a net release of RO7.0 M for the same period last year. The Bank released RO6.9 M of Wholesale ECL and RO0.9 M in Retail ECL. The ECL release was driven by an improvement in macroeconomic variables.

Operating expenses reduced by 14.5% to RO34.1 M compared with RO39.9 M for the same period in 2021 primarily due to lower staff cost due to a lower number of full time employees and lower IT related recharges.

Loans and advances to customers decreased by 4.2% to RO1,315.2 M compared with RO1,372.3 M as at 30 September 2021.

Customer deposits increased by 2.2% to RO1,955.9 M compared to the same period last year. Our liquidity remains strong, as evidenced by an Advances to Deposit ratio (ADR) of 67.2% at the end of September 2022.

HBON's Capital Adequacy Ratio (CAR) was 22.9% as at 30 September 2022 compared with 21.4% as at 30 September 2021.

Delivering the best customer experience

In Wealth and Personal Banking (WPB), we concluded a new to bank customer deposit acquisition campaign which offered all customers cash back on new deposits into their HSBC accounts.

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

We continued our Employee Banking Solutions program, which involved us holding numerous in-person and virtual meetings and financial well-being sessions with our top corporate employers, which led to an increase in new to bank customers of approximately 32% during the 3Q versus 2Q.

Digital penetration increased to 52% (11% higher year on year) while engagement increased to 9.2%.

HSBC Oman was voted as "Market Leader" by corporates in the Sultanate of Oman for the 11th consecutive year in the annual Euromoney Cash Management Survey 2022. The bank was also awarded the Best Service Award in the same Survey.

Investing in our people and the community

The overall Omansiation ratio at the end of 3Q was 95%, which is above the Central Bank of Oman's (CBO) target of 90% for 2022.

As part of the Summer internship program, a total of 30 interns were hired and will receive coaching and mentoring.

As part of our Corporate Sustainability commitment, we have partnered with a number of Omani Universities and colleges to launch a new future skills programme, "Debate Mate". Debate Mate seeks to empower youth with key employability and financial skills. The programme requires students to build their knowledge and understanding of topics around financial literacy and, through debate, challenge their colleagues and enhance their understanding of the topic.

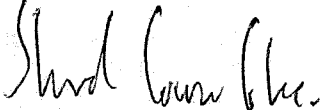
Sohar International Bank's Expression of Interest

With reference to the potential merger with Sohar International Bank, as stated in our disclosure to the Muscat Stock Exchange in July, we have initiated exclusive discussions with Sohar International Bank on the potential merger of the two banks. Further disclosures and detailed customer communications will be made when there is further significant progress in this topic.

Conclusion

Finally, I would like to express my thanks and appreciation to all our stakeholders, including 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 nine month period ended 30 September 2022

	30 September 2022 RO'000	30 September 2021 RO'000	Change (%)
Loans and advances to customers – net	1,315,194	1,372,280	(4.2)%
Customer deposits	1,955,933	1,913,918	2.2%
Net assets	357,569	341,036	4.8%
Net assets per share*	0.179	0.170	5.3%

	Nine month period ended 30 September 2022 RO'000	Nine month period ended 30 September 2021 RO'000	Change (%)
Net interest income	41,429	38,061	8.8%
Profit for the period	23,630	13,969	69.2%
Earnings per share (annualised)**	0.016	0.009	77.8%
Capital adequacy ratio (CAR)***	22.9%	21.4%	1.5%

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

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

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



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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of HSBC Bank Oman SAOG as at 30 September 2022 and the related interim condensed statement of comprehensive income for the three-month and nine-month periods then ended, and condensed changes in equity and cash flows for the nine-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 blue ink signature of a PricewaterhouseCoopers representative, written in a cursive style. Below the signature, the text 'Muscat, Sultanate of Oman' is printed in a bold, sans-serif font.

**Muscat, Sultanate of Oman
31 October 2022**

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

		Three month period ended 30 September 2022	Three month period ended 30 September 2021	Nine month period ended 30 September 2022	Nine month period ended 30 September 2021
	Notes	RO'000	RO'000	RO'000	RO'000
Interest income	3	19,947	17,021	53,839	49,626
Interest expense	4	(4,882)	(3,861)	(12,410)	(11,565)
Net interest income		15,065	13,160	41,429	38,061
Fee income		3,588	3,162	10,595	9,611
Fee expense		(842)	(873)	(2,597)	(2,573)
Net fee income	5	2,746	2,289	7,998	7,038
Net trading income		1,617	1,405	4,818	4,766
Other operating income / (loss) – net		156	(98)	378	39
Net operating income before loan impairment charges and other credit risk provisions		19,584	16,756	54,623	49,904
Change in expected credit losses and other credit impairment charges - net	6	1,907	1,281	7,799	6,968
Net operating income		21,491	18,037	62,422	56,872
Employee compensation and benefits	7(a)	(5,386)	(5,547)	(15,982)	(17,208)
General and administrative expenses	7(b)	(5,140)	(7,213)	(16,757)	(20,987)
Depreciation and impairment of property, equipment and right-of-use assets		(443)	(459)	(1,339)	(1,752)
Amortisation of intangible assets		(29)	-	(47)	-
Total operating expenses		(10,998)	(13,219)	(34,125)	(39,947)
Profit before tax		10,493	4,818	28,297	16,925
Tax expense		(1,683)	(884)	(4,667)	(2,956)
Profit for the period		8,810	3,934	23,630	13,969
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		(217)	277	(347)	(323)
-Expected credit losses recognised in income statement		(67)	(29)	(451)	(145)
- Tax release / (expense)		32	(41)	52	49
Other comprehensive (loss) / income for the period - net of tax		(252)	207	(746)	(419)
Total comprehensive income for the period		8,558	4,141	22,884	13,550
Earnings per share – basic and diluted	8				
-for the period (RO)		0.004	0.002	0.012	0.007
-annualised (RO)		0.018	0.008	0.016	0.009

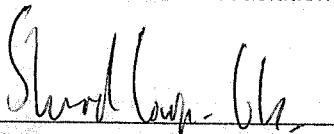
The accompanying notes form an integral part of this interim condensed financial information.

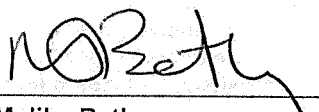
Interim condensed statement of financial position as at 30 September 2022 (unaudited)

		At 30 September 2022	At 30 September 2021	Audited At 31 December 2021
	Notes	RO'000	RO'000	RO'000
Assets				
Cash and balances with central banks		243,109	166,418	282,721
Due from banks		336,633	172,812	213,700
Loans and advances to customers - net	9	1,315,194	1,372,280	1,347,188
Financial investments	10	488,757	599,876	448,962
Other assets	11	47,021	36,673	34,078
Intangible assets	12	1,788	-	-
Property and equipment	13	19,805	19,772	20,342
Right-of-use assets		2,468	-	-
Deferred tax assets		2,592	4,296	2,256
Total assets		2,457,367	2,372,127	2,349,247
Liabilities and equity				
Liabilities				
Due to banks		75,375	65,304	48,444
Deposits from customers	14	1,955,933	1,913,918	1,901,094
Current tax liabilities		6,752	6,478	5,339
Other liabilities	15	59,292	45,391	48,883
Lease liabilities		2,446	-	-
Total liabilities		2,099,798	2,031,091	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)	634	1,270	1,380
Retained earnings		109,127	93,791	96,299
Total equity		357,569	341,036	345,487
Total liabilities and equity		2,457,367	2,372,127	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 30 October 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 nine month period ended 30 September 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	-	-	-	13,969	13,969
Other comprehensive income for the period	-	-	-	-	-
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	(419)	-	(419)
Total other comprehensive loss for the period	-	-	(419)	-	(419)
Total comprehensive (loss) / income for the period	-	-	(419)	13,969	13,550
Transaction with shareholders, recorded directly in equity					
Dividend for 2020	-	-	-	-	-
At 30 September 2021	200,031	45,944	1,270	93,791	341,036
At 1 January 2022	200,031	47,777	1,380	96,299	345,487
Total comprehensive income for the period					
Profit for the period	-	-	-	23,630	23,630
Other comprehensive income for the period					
Net movement in fair value of debt instruments carried at FVOCI (net of tax)	-	-	(746)	-	(746)
Total other comprehensive loss for the period	-	-	(746)	-	(746)
Total comprehensive (loss) / income for the period	-	-	(746)	23,630	22,884
Transaction with shareholders, recorded directly in equity					
Dividend for 2021	-	-	-	(10,802)	(10,802)
At 30 September 2022	200,031	47,777	634	109,127	357,569

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

**Interim condensed statement of cash flows for the nine month period ended 30 September 2022
(unaudited)**

		Nine month period ended 30 September 2022	Nine month period ended 30 September 2021 *Restated
	Notes	RO'000	RO'000
Cash flows from operating activities			
Profit before tax		28,297	16,925
Adjustments for:			
-non-cash items included in profit before tax	26(a)	(7,674)	(5,106)
-change in operating assets	26(b)	25,814	(2,639)
-change in operating liabilities	26(c)	92,804	1,203
-tax paid		(3,538)	(522)
-retirement benefits paid		(186)	(95)
Net cash generated from operating activities		135,517	9,766
Cash flows from investing activities			
Purchase of financial investments		(242,237)	(74,940)
Proceeds from maturity of financial investments		85,060	156
Purchase of property, equipment and software	13	(234)	(1,329)
Purchase of intangible assets	12	(1,835)	-
Net cash used in investing activities		(159,246)	(76,113)
Cash flows used in financing activities			
Dividends paid		(10,802)	-
Principal and interest elements of lease payments		(705)	(728)
Net cash used in financing activities		(11,507)	(728)
Net change in cash and cash equivalents		(35,236)	(67,075)
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)	782,383	796,406

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, valuation of financial instruments and applicability of IFRS 5 'Non - current assets held for sale and discontinued operations', refer note 2.1 (g) Going concern for details.

(e) Standards applicable during the period

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

IFRS 5 – ‘Non - current assets held for sale and discontinued operations’

On 25 July 2022, the Board of Directors of the Bank entered into a non-binding memorandum of understanding with Sohar International Bank, for exclusive discussions in relation to the potential merger between the two entities. On the date of approval of these interim financial statements, the ongoing exclusive discussions, negotiations, and the potential merger were subject to due diligence and entry into definitive agreements, in addition to obtaining final approvals from the banks’ respective Boards, Regulators and Shareholders.

There is significant judgment involved in the application of IFRS 5 guidance in respect of whether the Bank has met all the conditions relevant to the disposal group at the reporting date. As part of the ongoing assessment, the Board of Directors has determined that the disposal was not highly probable as at 30 September 2022 as the due diligence process has not been completed, a definitive agreement has not been entered into between the two entities and the transaction is still subject to final approvals from the banks’ respective Boards, Regulators and Shareholders. Accordingly, as at 30 September 2022, the Bank believes that the IFRS 5 criteria have not been met in respect of the potential merger.

(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 3.46% for the nine month period ended 30 September 2022 (30 September 2021 – 3.14%).

	Nine month period ended 30 September 2022	Nine month period ended 30 September 2021
	RO'000	RO'000
Loans and advances to customers	44,940	43,130
Financial investments	6,177	3,791
Due from banks	2,237	406
Others	485	2,299
Total	53,839	49,626

4 Interest expense

For the nine month period ended 30 September 2022, the average overall annualised cost of funds was 0.83% (30 September 2021 – 0.78%).

	Nine month period ended 30 September 2022	Nine month period ended 30 September 2021
	RO'000	RO'000
Deposits from customers	(11,878)	(11,155)
Due to banks	(221)	(254)
Others	(311)	(156)
Total	(12,410)	(11,565)

5 Net fee income

	Nine month period ended 30 September 2022	Nine month period ended 30 September 2021
	RO'000	RO'000
Cards	3,518	2,711
Account services	1,401	961
Remittances	955	855
Trade finance	903	715
Credit facilities	564	1,053
Global Custody	384	556
Others	2,870	2,760
Total Fee income	10,595	9,611
Fee expense	(2,597)	(2,573)
Net Fee income	7,998	7,038

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

	Nine month period ended 30 September 2022	Nine month period ended 30 September 2021
	RO'000	RO'000
Loans and advances to customer	7,579	4,921
Financial investments	447	145
Other financial assets	101	115
Due from banks	(2)	144
Loan commitment and guarantees	(326)	1,643
Total	7,799	6,968

7 Operating expenses**7(a) Employee compensation and benefits**

	Nine month period ended 30 September 2022	Nine month period ended 30 September 2021
	RO'000	RO'000
Wages and salaries	(11,967)	(12,479)
Social security costs	(1,271)	(1,220)
Post-employment benefits	(117)	(108)
Other employee benefits	(2,627)	(3,401)
Total	(15,982)	(17,208)

7 (b) General and administrative expenses

	Nine month period ended 30 September 2022	Nine month period ended 30 September 2021
	RO'000	RO'000
Premises and equipment	(2,107)	(2,397)
Insurance	(808)	(834)
Communications	(561)	(563)
Marketing and advertising	(271)	(1,016)
Other administrative expenses	(13,010)	(16,177)
Total	(16,757)	(20,987)

8 Earnings per share – basic and diluted

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

	Nine month period ended 30 September 2022	Nine month period ended 30 September 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)	23,630	13,969	18,332
Earnings per share – basic and diluted (RO)			
- for the period / year	0.012	0.007	0.009
- annualised	0.016	0.009	0.009

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

9 Loans and advances to customers - net

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
Loans	1,100,046	1,174,854	1,140,632
Overdrafts	165,479	140,504	150,746
Clean import loans	57,071	67,900	62,151
Credit cards	39,258	30,319	32,338
Bills discounted / purchased	1,778	14,250	15,958
Gross loans and advances	1,363,632	1,427,827	1,401,825
Allowances for ECL	(34,008)	(42,199)	(41,393)
Reserved interest*	(14,430)	(13,348)	(13,244)
Loans and advances (net)	1,315,194	1,372,280	1,347,188

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

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

	30 September 2022	30 September 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	2,540	2,259	2,910
Released to the statement of comprehensive income	(350)	(467)	(1,241)
Written off during the period / year	(1,004)	(1,860)	(1,841)
Balance at the end of the period / year	14,430	13,348	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 September 2022;

	Non credit - impairment				Credit impairment			
	Stage 1		Stage 2		Stage 3		Total	
	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	(68,239)	(248)	68,239	248	-	-	-	-
-Transfers from stage 2 to stage 1	430,423	1,307	(430,423)	(1,307)	-	-	-	-
-Transfers to stage 3	-	-	(12,253)	(2,985)	12,253	2,985	-	-
-Transfers from stage 3	-	-	3,703	1,292	(3,703)	(1,292)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(550)	-	1,211	-	51	-	712
Net new and further lending / (repayments) and changes to risk parameters	26,591	(2,827)	41,248	(3,113)	(5,481)	346	62,358	(5,594)
Assets written off	-	-	-	-	(3,121)	(2,190)	(3,121)	(2,190)
At 30 September 2022	1,721,590	2,307	545,127	12,102	45,872	22,507	2,312,589	36,916
ECL release / (charge) for the period		3,377		1,902		(397)		4,882
Recoveries		-		-		2,369		2,369
Total ECL release for the period		3,377		1,902		1,972		7,251

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 September 2022 (continued);

	At 30 September 2022		For the period ended 30 September 2022
	Gross carrying / nominal amount	Allowance for ECL	ECL release / (charge)
	RO'000	RO'000	RO'000
As above	2,312,589	36,916	7,251
Other financial assets measured at amortised cost	342,345	433	97
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied / Summary income statement	2,654,934	37,349	7,348
Debt instruments measured at FVOCI (note 10)	420,826	226	451
Total allowance for ECL / total profit or loss ECL release for the period	3,075,760	37,575	7,799

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 September 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	(394,323)	(2,067)	394,323	2,067	-	-	-	-
-Transfers from stage 2 to stage 1	279,560	4,430	(279,560)	(4,430)	-	-	-	-
-Transfers to stage 3	-	-	(5,307)	(1,437)	5,307	1,437	-	-
-Transfers from stage 3	-	-	1,487	893	(1,487)	(893)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(1,223)	-	1,037	-	35	-	(151)
Net new and further lending / (repayments) and changes to risk parameters	(103,687)	(2,524)	26,595	(3,980)	(1,053)	2,522	(78,145)	(3,982)
Assets written off	-	-	-	-	(9,988)	(8,128)	(9,988)	(8,128)
At 30 September 2021	1,292,585	8,224	922,117	14,766	45,671	22,171	2,260,373	45,161
ECL release / (charge) for the period		3,747		2,943		(2,557)		4,133
Recoveries		-		-		2,575		2,575
Total ECL release for the period		3,747		2,943		19		6,708

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 September 2021 (continued);

	At 30 September 2021		For the period ended 30 September 2021
	Gross carrying / nominal amount	Allowance for ECL	ECL release / (charge)
	RO'000	RO'000	RO'000
As above	2,260,373	45,161	6,708
Other financial assets measured at amortised cost	787,869	954	115
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied / Summary income statement	3,048,242	46,115	6,823
Debt instruments measured at FVOCI (note 10)	599,876	667	145
Total allowance for ECL / total profit or loss ECL release for the period	3,648,118	46,782	6,968

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 and further 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 10)	448,696	677	134
Total allowance for ECL / total profit or loss ECL charge for the year	3,008,258	45,313	7,500

Notes to the interim condensed financial information (unaudited) (continued)**Areas of special interest****Macro-economic Environment**

Oil remained in the USD90-110 range over the summer period, reducing to c. USD80bbl in September 2022 on fears that (i) central bank measures to contain inflation in major economies and (ii) protracted slowdown in China would persist and impact global economic growth.

The Fed increased rates by 75bps in July 2022 and then by another 75bps in September 2022. Both increases were subsequently mirrored by the CBO on its repo rate for local banks. Consensus expectations are for another 125bps over the remainder of 2022 and one more increase of 25bps in 1Q23 taking the terminal rate to 4.50%-4.75%.

In this context, the situation in Oman remained largely stable. Following S&P's upgrade in April 2022, Fitch upgraded Oman's long-term foreign-currency rating to 'BB' from 'BB-' with a 'stable' outlook in August 2022. The S&P affirmed Oman's rating at BB- in October 2022 with a stable outlook. Oman's upgrade reflected the significant improvements in fiscal metrics, a lessening of external financing pressures and ongoing efforts to reform public finances. Higher oil revenues year-to-date will underpin budget surpluses in 2022 and 2023 and a sharp fall in government debt/GDP to below the 'BB' median. In its analysis, Fitch estimated real GDP growth in 2022 of 4.4% from 3% in 2021, driven largely by the oil sector as Oman increased crude oil production alongside the OPEC+ taper. Inflation in Oman has remained largely contained within the 2.5% to 3% range and within the government's target.

Determination of the Forward Economic Guidance (FEG)

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 Downside "D1b" scenario introduced in 2Q22 which catered for a global stagflation scenario was demised in 3Q22. This scenario generally translated to a positive impact for Oman with significant pick up in oil prices leading to GDP growth in excess of the 2023 central consensus before reducing in 2024 below the central scenario but still closely aligned. With the removal of this scenario, it was in the Bank's view most pertinent for the 10% previously attributed in D1b to be aggregated with the central scenario, maintaining what is effectively a 75% central/upside, 25% downside equilibrium since previous quarter.

As described above, since last quarter, the outlook has remained stable for Oman. The bank has noted that the country continues to show oil output near full capacity at a slightly moderated price in the USD80-90bbl range maintaining fiscal revenues well in excess of budget. Fiscal discipline by the government has been reiterated and the bank has witnessed some regular deleveraging from Government Related Entities in the market as well as in our own credit portfolios. Inflation has also continued to be largely contained (2-3%) for the time being despite some subsidies being progressively removed. The non-oil sector has also seen some positive growth even during the summer months and the number of expats working in the private sector has increased consistently since the beginning of the year in parallel with Omanisation which has also increased by 5% over the same period.

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

	30 September 2022	30 September 2021	31 December 2021
Consensus Central scenario	70%	70%	70%
Consensus Upside scenario	5%	5%	5%
Consensus Downside 1a scenario	20%	20%	20%
Downside 2 scenario	5%	5%	5%

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

The impact of the FEG for 3Q22 has been a slight release in ECLs on the Wholesale portfolio. Impact on the Retail portfolio, particularly with the introduction of a new ECL model which uses multiple macro-economic variable inputs (oil price and unemployment in addition to GDP growth used till second quarter of 2022) has resulted in a release of RO0.6 M of the FEG component.

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

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
0-5%	777,421	1,040,435	1,042,288
5-7%	510,709	325,484	296,897
7-10%	25,365	20,430	19,787
10-13%	3,252	2,160	2,037
More than 13%	46,885	39,318	40,816
Total	1,363,632	1,427,827	1,401,825

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

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
0-6 months	267,317	353,832	379,007
6-12 months	180,214	80,495	34,422
1-3 years	102,927	226,863	244,301
3-5 years	174,988	270,037	182,191
More than 5 years	589,748	441,053	507,267
Total	1,315,194	1,372,280	1,347,188

Concentration of loans and advances:

Loans and advances to customers by industry sector

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
Personal and consumer loans	491,369	443,461	458,488
Corporate and commercial			
Manufacturing	159,400	172,169	164,232
Import trade	117,605	136,720	124,952
Construction	92,648	77,467	106,082
Services	72,748	103,974	99,129
Electricity, gas, water, transportation and communication	58,559	66,510	54,282
Wholesale and retail trade	39,053	68,674	52,190
Mining and quarrying	26,432	62,427	32,140
Others	305,818	295,925	309,728
	872,263	983,866	942,735
Financial institutions	-	500	602
Total gross loans and advances	1,363,632	1,427,827	1,401,825
ECL allowances	(34,008)	(42,199)	(41,393)
Reserved interest	(14,430)	(13,348)	(13,244)
Net loans and advances	1,315,194	1,372,280	1,347,188
Non-Performing Loans (NPL)	42,179	42,824	42,944

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

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

As of 30 September 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*	1,817	7,799	5,982
Provisions required**	51,923	52,005	82
Gross NPL ratio (percentage)	3.09%	3.09%	-
Net NPL ratio (percentage)	0.62%	0.54%	(0.08)%

At 30 September 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*	3,166	6,968	3,802
Provisions required**	51,632	59,463	7,831
Gross NPL ratio (percentage)	3.00%	3.00%	-
Net NPL ratio (percentage)	0.69%	0.66%	(0.03)%

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 RO14.4 M (30 September 2021: RO13.3 M and 31 December 2021 RO13.2 M).

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 September 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	937,848	12,839	1,957	10,882	935,891	107
	Stage 2	348,772	3,598	6,583	(2,985)	342,189	388
	Stage 3	-	-	-	-	-	-
		1,286,620	16,437	8,540	7,897	1,278,080	495
Special mention	Stage 1	-	-	-	-	-	-
	Stage 2	33,132	334	3,331	(2,997)	29,801	618
	Stage 3	1,703	75	356	(281)	1,347	49
		34,835	409	3,687	(3,278)	31,148	667
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	1,450	390	705	(315)	745	59
		1,450	390	705	(315)	745	59
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	62	28	35	(7)	27	3
		62	28	35	(7)	27	3
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	40,665	20,229	21,041	(812)	19,624	13,206
		40,665	20,229	21,041	(812)	19,624	13,206
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,539,655	-	686	(686)	1,538,969	-
	Stage 2	170,481	-	2,511	(2,511)	167,970	-
	Stage 3	1,992	-	370	(370)	1,622	-
		1,712,128	-	3,567	(3,567)	1,708,561	-
Total	Stage 1	2,477,503	12,839	2,643	10,196	2,474,860	107
	Stage 2	552,385	3,932	12,425	(8,493)	539,960	1,006
	Stage 3	45,872	20,722	22,507	(1,785)	23,365	13,317
	Total	3,075,760	37,493	37,575	(82)	3,038,185	14,430

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 September 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	1,903,993	10,256	8,478	1,778	1,895,515	357
	Stage 2	1,098,579	6,779	15,467	(8,688)	1,083,112	826
	Stage 3	45,671	21,250	22,171	(921)	23,500	12,165
Total		3,048,243	38,285	46,116	(7,831)	3,002,127	13,348

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 September 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)
Classified as performing	Stage 1	38,954	390	144	246	38,810	-
	Stage 2	7,113	71	1,072	(1,001)	6,041	14
	Stage 3	1,702	75	356	(281)	1,346	49
	Sub Total	47,769	536	1,572	(1,036)	46,197	63
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	16,193	10,583	11,545	(962)	4,648	1,226
	Sub Total	16,193	10,583	11,545	(962)	4,648	1,226
Total	Stage 1	38,954	390	144	246	38,810	-
	Stage 2	7,113	71	1,072	(1,001)	6,041	14
	Stage 3	17,895	10,658	11,901	(1,243)	5,994	1,275
	Total	63,962	11,119	13,117	(1,998)	50,845	1,289

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

Restructured loans and advances (as per CBO illustrative disclosure) as of 30 September 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	42,263	423	916	(493)	41,347	-
	Stage 2	35,003	350	1,391	(1,041)	33,612	-
	Stage 3	18,122	11,091	10,353	738	7,769	925
Total		95,388	11,864	12,660	(796)	82,728	925

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

HSBC Bank Oman S.A.O.G.

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

10 Financial investments

Financial investments details are provided as follows:

	Fair value	Fair value	Fair value	Carrying value	Carrying value	Carrying value	Cost	Cost	Cost
	30	30	31	30	30	31	30	30	31
	September	September	December	September	September	December	September	September	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	77,450	77,547	77,711	77,450	77,547	77,711	76,853	76,819	76,819
Other investments									
Treasury bills	411,307	522,112	370,985	411,307	522,112	370,985	411,177	522,081	371,000
Unquoted Omani shares	-	210	259	-	210	259	-	260	260
Unquoted foreign shares	-	7	7	-	7	7	-	7	7
	411,307	522,329	371,251	411,307	522,329	371,251	411,177	522,348	371,267
Total	488,757	599,876	448,962	488,757	599,876	448,962	488,030	599,167	448,086

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

Carrying amount of financial investments

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
Financial investments measured at fair value through other comprehensive income			
Treasury bills	343,376	522,112	370,985
Government bonds	77,450	77,547	77,711
Other investments	-	200	200
	420,826	599,859	448,896
Debt instruments measured at amortised cost			
Treasury bills	67,931	-	-
Financial investments measured at fair value through profit or loss			
Equity investments	-	17	66
Total	488,757	599,876	448,962

11 Other assets

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
Acceptances	31,198	21,612	23,454
ECL on acceptances	(326)	(106)	(612)
Acceptances (net of ECL)	30,872	21,506	22,842
Derivatives-positive mark-to-market	2,642	9,801	6,040
Prepayments	414	629	393
Right-of-use assets	-	2,785	2,396
Others*	13,093	1,952	2,407
Total	47,021	36,673	34,078

*Others include Card settlement balance of RO11.1 M with payments network provider (30 September 2021: nil, 31 December 2021: nil)

12 Intangible assets

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
Computer Software*	1,835	-	3,058
Less: amortised	(47)	-	-
Less: impairment	-	-	(3,058)
Total	1,788	-	-

*Intangible assets of RO1.8 M is software development cost from HSBC affiliates as of 30 September 2022. The costs include RO1.3 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 September 2021: RO1.3 M).

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

14 Deposits from customers

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
Current and call	999,579	995,386	1,021,550
Time deposits	574,619	505,201	476,978
Savings	378,202	409,178	399,685
Others	3,533	4,153	2,881
Total	1,955,933	1,913,918	1,901,094

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

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
0-6 months	674,536	717,542	660,642
6-12 months	255,358	257,768	290,611
1-3 years	570,457	385,636	428,588
3-5 years	99,920	169,365	149,626
Over 5 years	355,662	383,607	371,627
Total	1,955,933	1,913,918	1,901,094

The interest rate bands of deposits are as follows:

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
0-2%	1,392,537	1,499,304	1,482,382
2-5%	563,396	414,614	418,712
Total	1,955,933	1,913,918	1,901,094

15 Other liabilities

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
Acceptances	31,198	21,612	23,454
Derivatives - negative mark-to-market	11,298	746	1,326
Accruals and deferred income	4,710	5,277	6,103
ECL on off balance sheet exposure and other commitments	2,877	2,935	2,565
Retirement benefit liability	1,539	1,455	1,464
Provisions*	291	395	379
Others	7,379	12,971	13,592
Total	59,292	45,391	48,883

*Includes provision for legal, litigation and contingent commitments.

As at 30 September 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.

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

16 Contingent liabilities, commitments and derivatives

	30 September 2022 RO'000	30 September 2021 RO'000	31 December 2021 RO'000
Undrawn unconditionally cancellable commitments*	452,006	480,512	465,935
Undrawn unconditionally non-cancellable commitments	55,260	86,913	76,296
Forward foreign exchange contracts	95,204	90,922	21,125
Interest rate swaps	226,765	222,915	246,015
Documentary credits	66,067	69,474	66,862
Guarantees and performance bonds	452,770	464,602	457,643
Total	1,348,072	1,415,338	1,333,876

*Undrawn unconditionally cancellable commitments of RO93.4 M (30 September 2021: RO125.6 M. 31 December 2021: RO113 M) are considered as part of loan commitments for IFRS 9.

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 RO'000	Level 2 RO'000	Total RO'000
At 30 September 2022			
Assets			
Derivatives	-	2,642	2,642
Financial investments at fair value through other comprehensive income	134,209	286,617	420,826
Liabilities			
Derivatives	-	11,298	11,298
Deposits from customers	-	230,517	230,517
At 30 September 2021			
Assets			
Derivatives	-	9,801	9,801
Financial investments at fair value through other comprehensive income	182,465	417,394	599,859
Financial investments at fair value through profit or loss	-	17	17
Liabilities			
Derivatives	-	746	746
Deposits from customers	-	237,361	237,361

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 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 (September 2021 and December 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 September 2022	Positive fair value RO'000	Negative fair value RO'000	Total notional amount RO'000
Derivatives:			
Forward foreign exchange contracts	182	207	95,204
Interest rate swaps*	2,460	11,091	226,765
	2,642	11,298	321,969
30 September 2021:	Positive fair value RO'000	Negative fair value RO'000	Total notional amount RO'000
Derivatives:			
Forward foreign exchange contracts	79	1,119	90,922
Interest rate swaps*	8,682	667	222,915
	8,761	1,786	313,837
31 December 2021:	Positive fair value RO'000	Negative fair value RO'000	Total notional amount 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

At 30 September 2022	Hedging Instrument				
	Carrying Amount				Statement of financial position presentation
	Notional Amount ¹	Assets	Liabilities		Change in fair value ²
	RO'000	RO'000	RO'000	RO'000	RO'000
Hedged Risk					
Interest Rate	226,765	2,460	11,091	Derivatives	(12,244)

At 30 September 2021	Hedging Instrument				
	Carrying Amount				Statement of financial position presentation
	Notional Amount ¹	Assets	Liabilities		Change in fair value ²
	RO'000	RO'000	RO'000	RO'000	RO'000
Hedged Risk					
Interest Rate	222,915	8,682	667	Derivatives	(3,593)

At 31 December 2021	Hedging Instrument				
	Carrying Amount				Statement of financial position presentation
	Notional Amount ¹	Assets	Liabilities		Change in fair value ²
	RO'000	RO'000	RO'000	RO'000	RO'000
Hedged Risk					
Interest Rate	246,015	5,933	1,224	Derivatives	(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, the bank continues to be exposed to and actively monitor, risks including:

Regulatory compliance risk: If the bank neglects 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: The bank 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: The bank 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 the bank's 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, the bank is 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 year. 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 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
Non-derivative financial assets			
Loans and advances to customers	173,379	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 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 September 2022					
Assets					
Loans and advances to customers – net	-	-	1,287,927	1,287,927	1,315,194
Liabilities					
Deposits from customers	-	1,719,660	-	1,719,660	1,725,416

	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 30 September 2021					
Assets					
Loans and advances to customers – net	-	-	1,335,614	1,335,614	1,372,280
Liabilities					
Deposits from customers	-	1,682,049	-	1,682,049	1,676,557

	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	-	1,648,190	-	1,648,190	1,642,726

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 September 2022			30 September 2021			31 December 2021		
	Liabilities			Liabilities			Liabilities		
	Assets	and equity	Mismatch	Assets	and equity	Mismatch	Assets	and equity	Mismatch
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
0-6 months	1,250,388	815,029	435,359	1,218,767	830,771	387,996	1,283,622	760,535	523,087
6-12 months	202,573	279,482	(76,909)	89,496	272,745	(183,249)	34,625	309,147	(274,522)
1-3 years	162,977	570,459	(407,482)	270,606	385,636	(115,030)	276,199	428,588	(152,389)
3-5 years	198,049	99,920	98,129	300,258	169,365	130,893	207,210	149,626	57,584
more than 5 years	643,380	692,477	(49,097)	493,000	713,610	(220,610)	547,591	701,351	(153,760)
Total	2,457,367	2,457,367	-	2,372,127	2,372,127	-	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 September 2022		30 September 2021		31 December 2021	
	Gross carrying /nominal amount* RO'000	Allowance for ECL RO'000	Gross carrying /nominal amount* RO'000	Allowance for ECL RO'000	Gross carrying /nominal amount* RO'000	Allowance for ECL RO'000
Cash and balances with central bank	243,212	(103)	166,598	(180)	282,756	(35)
Due from banks	336,664	(31)	172,840	(28)	213,730	(30)
Loans and advances to customers						
-WPB	490,529	(6,867)	441,981	(9,139)	457,693	(7,706)
-Wholesale	858,673	(27,141)	972,498	(33,059)	930,888	(33,687)
Financial investments at amortised cost	67,936	(4)	-	-	-	-
Other assets	31,198	(326)	21,612	(107)	23,454	(613)
Total gross carrying amount on balance sheet	2,028,212	(34,472)	1,775,529	(42,513)	1,908,521	(42,071)
Loans and other credit related commitments	612,293	(2,877)	659,705	(2,935)	637,797	(2,565)
Total nominal amount off balance sheet	612,293	(2,877)	659,705	(2,935)	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	420,826	(226)	599,659	(667)	448,696	(677)

*Gross carrying / nominal amount are net of reserved interest for Loans and advances to customers.

21 Share capital

The share capital of the Bank is divided into 2,000,312,790 fully paid shares of RO0.100 each (30 September 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 September 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 September 2022	30 September 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

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

	30 September 2022		
	Number of shareholders	Total shares	% of Share Capital
% of Shareholding			
5% and above	1	1,020,159,523	51.0%
Less than 5%	3,095	980,153,267	49.0%
Total	3,096	2,000,312,790	100.0%

	30 September 2021		
	Number of shareholders	Total shares	% of Share Capital
% of Shareholding			
5% and above	1	1,020,159,523	51.0%
Less than 5%	3,266	980,153,267	49.0%
Total	3,267	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. The bank believes that the 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 September 2022					
Loans and advances	-	-	-	25,456	25,456
Current, deposit and other accounts	-	3,528	73	5,907	9,508
Letters of credit and guarantees	-	107,164	-	4,555	111,719
Acceptances	-	-	-	1,266	1,266
Due from banks	-	77,927	-	-	77,927
Due to banks ¹	-	26,742	-	-	26,742
Collateral received	-	20,739	-	-	20,739
Purchase of intangible assets (software) ²	-	1,788	-	-	1,788
For the period ended 30 September 2022					
Net fee income ³	-	82	-	-	82
General and administrative expenses ⁴	-	(11,424)	(29)	(60)	(11,513)

- 1 Due to banks includes Vostro balances of RO22.9 M from HSBC affiliates and accrual of RO3.8 M for the expenses payable to HSBC Affiliates as of 30 September 2022.
- 2 Intangible assets of RO1.8 M is software development cost from HSBC affiliates as of 30 September 2022. The costs include RO1.3 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 RO0.4 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 September 2021					
Loans and advances	-	-	547	93,580	94,127
Current, deposit and other accounts	-	4,322	454	12,917	17,693
Letters of credit and guarantees	-	160,713	-	7,321	168,034
Acceptances	-	-	-	207	207
Due from banks	-	40,540	-	-	40,540
Due to banks ¹	-	16,365	-	-	16,365
Collateral received	-	56,536	-	-	56,536
For the period ended 30 September 2021					
Net fee income ²	-	(179)	-	-	(179)
General and administrative expenses ³	-	(13,547)	(23)	(458)	(14,028)

- 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 September 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 September 2022 RO'000	30 September 2021 RO'000	31 December 2021 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 September 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 September 2021: between 0.1% p.a. and 0.7% p.a.).

Compensation of key management personnel

	Nine month period ended 30 September 2022 RO'000	Nine month period ended 30 September 2021 RO'000
Wages, salaries and other short term benefits	1,072	1,123
Post-employment benefits	167	73
Total	1,239	1,196

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

24 Operating segments

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 September 2022				
	CMB	WPB	GB&M	Corporate center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income					
- External	11,063	20,653	9,856	(143)	41,429
- Internal	557	395	(986)	34	-
	11,620	21,048	8,870	(109)	41,429
Net fee income	2,701	2,339	3,072	(114)	7,998
Net trading income	967	1,095	2,756	-	4,818
Other income / (loss)	65	7	325	(19)	378
Net operating income before change in expected credit losses and other credit impairment charges	15,353	24,489	15,023	(242)	54,623
Change in expected credit losses and other credit impairment charges	2,758	874	4,167	-	7,799
Net operating income / (loss)	18,111	25,363	19,190	(242)	62,422
Total operating expenses	(7,552)	(21,076)	(5,341)	(156)	(34,125)
Profit / (loss) before tax	10,559	4,287	13,849	(398)	28,297
Reportable segment assets	1,003,533	811,689	545,162	96,983	2,457,367
Reportable segment liabilities	868,394	556,932	649,845	24,627	2,099,798

Profit / (loss) for the period	30 September 2021				
	CMB	WPB	GB&M	Corporate center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income					
- External	10,460	18,594	9,185	(178)	38,061
- Internal	958	1,658	(2,779)	163	-
	11,418	20,252	6,406	(15)	38,061
Net fee income	2,246	2,125	2,777	(110)	7,038
Net trading income	1,161	1,097	2,508	-	4,766
Other income / (loss)	131	(9)	(99)	16	39
Net operating income before change in expected credit losses and other credit impairment charges	14,956	23,465	11,592	(109)	49,904
Change in expected credit losses and other credit impairment charges	2,834	(534)	4,668	-	6,968
Net operating income / (loss)	17,790	22,931	16,260	(109)	56,872
Total operating expenses	(8,701)	(22,692)	(5,251)	(3,303)	(39,947)
Profit / (loss) before tax	9,089	239	11,009	(3,412)	16,925
Reportable segment assets	1,047,350	636,409	586,318	102,050	2,372,127
Reportable segment liabilities	874,950	611,504	522,435	22,202	2,031,091

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

Balance sheet information	30 September 2022				
	Corporate center				Total
	CMB RO'000	WPB RO'000	GB&M RO'000	RO'000	
Loans and advances to customers (net)	522,668	483,662	308,864	-	1,315,194
Total assets	1,003,533	811,689	545,162	96,983	2,457,367
Deposits from customers	829,071	550,667	576,195	-	1,955,933
Total liabilities	868,394	556,932	649,845	24,627	2,099,798
30 September 2021					
Loans and advances to customers (net)	524,942	432,842	414,496	-	1,372,280
Total assets	1,047,350	636,409	586,318	102,050	2,372,127
Deposits from customers	849,510	605,563	458,845	-	1,913,918
Total liabilities	874,950	611,504	522,435	22,202	2,031,091
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 customers	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 September 2022				
	Corporate center				Total
	CMB RO'000	WPB RO'000	GB&M RO'000	RO'000	
Net operating income ¹					
- external	14,796	24,094	16,009	(276)	54,623
- internal	557	395	(986)	34	-
30 September 2021					
Net operating income					
- external	13,998	21,807	14,371	(272)	49,904
- internal	958	1,658	(2,779)	163	-

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

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 September 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 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
CET 1 / Tier 1 capital	328,830	321,260	330,783
Tier 2 capital (T2)	2,643	12,008	10,307
Total regulatory capital	331,473	333,268	341,090
Risk-weighted assets	1,445,481	1,557,709	1,500,051
CET 1 / Tier 1 capital ratio	22.75%	20.62%	22.05%
Total CAR	22.93%	21.39%	22.74%

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

	30 September 2022	30 September 2021	31 December 2021
	RO'000	RO'000	RO'000
CET 1 / Tier 1 capital	328,830	321,260	330,783
Tier 2 capital (T2)	2,643	11,571	8,481
Total regulatory capital	331,473	332,831	339,264
Risk-weighted assets	1,445,481	1,557,709	1,500,051
CET 1 / Tier 1 capital ratio	22.75%	20.62%	22.05%
Total CAR	22.93%	21.37%	22.62%

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

26 Cash and cash equivalents

	30 September 2022	30 September 2021
	RO'000	RO'000
26(a) Non-cash items included in profit before tax		
Interest expense on lease	121	155
Change in expected credit losses and other credit impairment charges	(7,799)	(6,968)
Depreciation and impairment of property, equipment and right-of-use assets	1,339	1,752
Amortisation of intangible assets	47	-
Amortisation of discount on financial investment	(1,513)	(210)
Employer's current service cost with interest	116	161
Loss on disposal of property and equipment	15	4
Total	(7,674)	(5,106)
26(b) Change in operating assets		
	RO'000	RO'000
Change in loans and advances to customers-net	39,342	(1,875)
Change in other assets	(13,528)	(764)
Total	25,814	(2,639)
26(c) Change in operating liabilities		
	RO'000	RO'000
Change in due to banks	26,931	1,530
Change in deposits from customers	54,839	8,147
Change in other liabilities	11,034	(8,474)
Total	92,804	1,203
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 September 2022	30 September 2021
	RO'000	RO'000
Interim condensed statement of financial position (unaudited) comprise:		
Cash and balances with central bank	243,109	166,418
Due from banks	336,633	172,812
Financial investments - original maturities of three months or less	202,641	457,176
Total	782,383	796,406

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 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 September 2021: 100%) in accordance with CBO stipulated guidelines. The Bank's average LCR as of 30 September 2022 was 352% (30 September 2021 – 225%)

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

		30 September 2022	
		Total Unweighted Value (average*) RO'000	Total Weighted Value (average*) RO'000
High quality liquid assets			
1	Total High quality liquid assets (HQLA)		559,628
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	573,418	42,701
3	- Stable deposits	292,807	14,640
4	- Less stable deposits	280,611	28,061
5	Unsecured wholesale funding, of which:	897,841	403,418
6	- Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	- Non-operational deposits (all counterparties)	897,841	403,418
8	- Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which	20,838	2,046
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	20,838	2,046
14	Other cash outflows	24,973	24,973
15	Other contingent funding obligations	576,256	28,813
16	Total cash outflows (2+5+10+14+15)	-	501,951
Cash inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	333,744	318,151
19	Other cash inflows	24,977	24,977
20	Total cash inflows (17+18+19)	358,721	343,128
21	Total HQLA	-	559,628
22	Total net cash outflows (16-20)	-	158,823
23	Liquidity coverage ratio (21/22)	-	352%

*simple average of daily observations over the last three months (Jul – Sep 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 September 2021: 100%) in accordance with CBO stipulated guidelines. The Bank's NSFR as of 30 September 2022 was 164% (30 September 2021 – 148.8%)

Net Stable Funding Ratio disclosure for the period ended 30 September 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	
1	Capital:	360,219	-	-	-	360,219
2	Regulatory capital	335,951	-	-	-	335,951
3	Other capital instruments	24,268	-	-	-	24,268
4	Retail deposits and deposits from small business customers	517,578	10,301	4,156	17,807	510,431
5	Stable deposits	275,849	1	-	-	262,058
6	Less stable deposits	241,729	10,300	4,156	17,807	248,373
7	Wholesale funding:	968,787	56,941	13,803	441,935	961,701
8	Operational deposits	75,375	-	-	-	37,688
9	Other wholesale funding	893,412	56,941	13,803	441,935	924,013
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	26,113	41,807	494	6,752	-
12	NSFR derivative liabilities	-	8,656	-	-	-
13	All other liabilities and equity not included in above categories	26,113	33,151	494	6,752	-
14	Total ASF	-	-	-	-	1,832,351
Require Stable Funding (RSF) items						
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	24,438
16	Deposits held at other financial institutions for operational purposes	34,384	-	-	-	17,192
17	Performing loans and securities:	-	676,792	163,082	778,272	958,604
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	-	296,693	-	-	45,342
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	-	377,908	161,285	658,955	846,722
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:	-	2,191	1,797	119,317	66,540
23	- With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	2,191	1,797	99,301	64,546

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:	27,123	30,705	494	10,125	68,447
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	27,123	30,705	494	10,125	68,447
32	Off-balance sheet items		614,523	158,228	253,353	51,305
33	TOTAL RSF	-	-	-	-	1,119,986
34	NET STABLE FUNDING RATIO (%)	-	-	-	-	164%

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 September 2021: 4.5%) in accordance with CBO stipulated guidelines. The Bank's leverage ratio as of 30 September 2022 was 11.5% (30 September 2021 – 11.5%)

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

Item	As at 30.09.2022
1 Total consolidated assets as per published financial statements	2,457,367
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	1,508
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)	402,821
7 Other adjustments	(4,380)
8 Leverage ratio exposure	2,857,316

Table 2: Leverage ratio common disclosure template

Item	As at 30.09.2022
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,454,725
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(4,380)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,450,345
Derivative Exposures	
4 Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	2,642
5 Add-on amounts for PFE associated with all derivatives transactions	1,508
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)	4,150
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	1,026,103
18 (Adjustments for conversion to credit equivalent amounts)	(623,282)
19 Off-balance sheet items (sum of lines 17 and 18)	402,821
Capital and total exposures	
20 Tier 1 capital	328,830
21 Total exposures (sum of lines 3, 11, 16 and 19)	2,857,316
Leverage Ratio	
22 Basel III leverage ratio (%)	11.5%

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