

# **National Bank of Oman SAOG**

## **INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 June 2017 (UNAUDITED)**



<b>SR.NO</b>	<b>INDEX</b>	<b>PAGE NO</b>
1	CHAIRMAN REPORT	1-2
2	INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION	3
3	INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME	4
4	INTERIM CONDENSED STATEMENT OF CASH FLOWS	5
5	INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY	6
6	NOTES TO INTERIM CONDENSED FINANCIAL STATEMENT	7-24

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2017 (Un-audited)**

		<i>30-06-2017</i>	<i>31-06-2016</i>	<i>Audited</i> <i>31-12-2016</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Assets</b>				
Cash and balances with Central Banks	3	<b>368,521</b>	400,465	511,594
Due from banks and other money market placements (net)	4	<b>147,666</b>	102,747	115,330
Loans, advances and financing activities for customers (net)	5	<b>2,782,823</b>	2,792,749	2,670,281
Financial investments	6	<b>176,785</b>	155,946	128,383
Premises and equipment	7	<b>57,390</b>	38,108	46,345
Other assets	8	<b>72,448</b>	66,267	60,750
<b>Total assets</b>		<b>3,605,633</b>	3,556,282	3,532,683
<b>Liabilities</b>				
Due to banks and other money market deposits		<b>114,530</b>	270,660	225,235
Customers' deposits and unrestricted investment accounts	9	<b>2,586,966</b>	2,439,760	2,399,361
Euro medium term notes	10	<b>232,673</b>	199,813	233,105
Other liabilities	11	<b>82,491</b>	75,761	80,062
Taxation	12	<b>6,411</b>	4,142	7,406
		<b>3,023,071</b>	2,990,136	2,945,169
Subordinated debt	13	<b>49,100</b>	49,100	49,100
<b>Total liabilities</b>		<b>3,072,171</b>	3,039,236	2,994,269
<b>Equity</b>				
Share capital		<b>154,852</b>	147,478	147,478
Share premium		<b>34,465</b>	34,465	34,465
Legal reserve		<b>49,159</b>	47,737	49,159
Other non-distributable reserves	14	<b>43,213</b>	36,844	46,196
Proposed cash dividend		-	-	23,478
Proposed stock dividend		-	-	7,374
Retained earnings		<b>136,273</b>	135,022	114,764
<b>Total shareholders' equity attributable to the equity holders of the bank</b>		<b>417,962</b>	401,546	422,914
Tier 1 perpetual bond	15	<b>115,500</b>	115,500	115,500
<b>Total equity</b>		<b>533,462</b>	517,046	538,414
<b>Total liabilities and equity</b>		<b>3,605,633</b>	3,556,282	3,532,683
<b>Contingent liabilities and commitments</b>	16	<b>533,405</b>	646,401	781,729

The interim condensed financial statements were authorised for issue on xxx in accordance with a resolution of the Board of Directors.

\_\_\_\_\_  
Chairperson

\_\_\_\_\_  
Chief Executive Officer

The attached notes 1 to 27 form part of the interim condensed financial statements.

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**For the period ended 30 June 2017 (Un-audited)**

	Notes	<u>Six months ended</u>		<u>Three months ended</u>	
		<u>30 June</u>		<u>30 June</u>	
		2017	2016	2017	2016
		RO'000	RO'000	RO'000	RO'000
Interest income	17	72,502	65,175	36,395	33,509
Interest expense	18	(27,104)	(16,937)	(14,145)	(9,063)
<b>Net interest income</b>		<b>45,398</b>	<b>48,238</b>	<b>22,250</b>	<b>24,446</b>
Income from Islamic financing and Investment activities		2,786	2,379	1,424	1,186
Unrestricted investment account holders' share of profit		(1,269)	(665)	(697)	(364)
<b>Net Income from Islamic financing and Investment activities</b>		<b>1,517</b>	<b>1,714</b>	<b>727</b>	<b>822</b>
<b>Net interest income and net income from Islamic financing and Investment activities</b>		<b>46,915</b>	<b>49,952</b>	<b>22,977</b>	<b>25,268</b>
Other operating income	19	18,743	17,858	8,522	9,459
<b>OPERATING INCOME</b>		<b>65,658</b>	<b>67,810</b>	<b>31,499</b>	<b>34,727</b>
Staff costs		(17,698)	(16,941)	(8,947)	(8,661)
Other operating expenses	20	(11,055)	(10,676)	(5,395)	(5,288)
Depreciation	7	(1,735)	(1,316)	(879)	(656)
<b>OPERATING EXPENSES</b>		<b>(30,488)</b>	<b>(28,933)</b>	<b>(15,221)</b>	<b>(14,605)</b>
<b>PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX</b>		<b>35,170</b>	<b>38,877</b>	<b>16,278</b>	<b>20,122</b>
Credit loss expense – customer loans	5	(9,810)	(9,224)	(5,240)	(4,238)
Recoveries and releases from provision for credit losses		4,835	4,012	3,157	2,087
Others		(18)	19	(18)	35
<b>TOTAL IMPAIRMENT LOSSES (NET)</b>		<b>(4,993)</b>	<b>(5,193)</b>	<b>(2,101)</b>	<b>(2,116)</b>
<b>PROFIT BEFORE TAX</b>		<b>30,177</b>	<b>33,684</b>	<b>14,177</b>	<b>18,006</b>
Taxation	12	(4,120)	(4,289)	(1,883)	(2,548)
<b>PROFIT FOR THE PERIOD</b>		<b>26,057</b>	<b>29,395</b>	<b>12,294</b>	<b>15,458</b>
<b>OTHER COMPREHENSIVE EXPENSE</b>					
<b>Items that are or may be reclassified subsequently to profit or loss</b>					
Net movement on available-for- sale investments		(3,077)	(737)	(2,498)	(659)
Tax effect of net results on available-for-sale financial investments		94	(15)	50	12
<b>OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD</b>		<b>(2,983)</b>	<b>(752)</b>	<b>(2,448)</b>	<b>(647)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>23,074</b>	<b>28,643</b>	<b>9,846</b>	<b>14,811</b>
Earnings per share annualised:					
Basic and diluted, profit for the period attributable to equity holders		0.034	0.038	0.032	0.040

The attached notes 1 to 27 form part of the interim condensed financial statements.

**INTERIM CONDENSED STATEMENT OF CASH FLOWS**  
**For the period ended 30 June 2017 (Un-audited)**

	<i>Notes</i>	<i>Six months ended</i>	
		<i>30 June</i>	
		<b>2017</b>	2016
		<b>RO'000</b>	RO'000
<b>Profit before taxation</b>		<b>30,177</b>	33,684
Adjustments for:			
Depreciation	7	1,735	1,316
Provision for credit losses (net)		9,810	9,224
Provision for credit loss expenses bank loans (net)		18	(19)
Profit on sale of fixed assets		-	(12)
Profit on sale of investments		(147)	(1,451)
Investment income		(3,286)	(2,361)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>38,307</b>	40,381
Due from and other money market deposits		(2,260)	(29,069)
Due to and other money market placements		(53,415)	8,614
Loans and advances to customers		(122,352)	(267,874)
Other assets		(10,441)	(3,532)
Customers' deposits		187,605	189,934
Other liabilities		1,997	(351)
<b>Cash from/(used in) operations</b>		<b>39,441</b>	(61,897)
Tax paid		(6,277)	(8,641)
<b>Net cash from/ (used in) operating activities</b>		<b>33,164</b>	(70,538)
<b>Investing activities</b>			
Purchase of investments		(52,520)	(10,762)
Proceeds from sale of investments		1,188	12,163
Purchase of premises and equipment	7	(12,781)	(4,797)
Disposal of premises and equipment		2	25
Translation difference in premises and equipment and Tax		(1)	(129)
Interest on Government Development Bond and T-Bills		2,112	1,815
Dividend income	19	1,174	546
<b>Net cash used in investing activities</b>		<b>(60,826)</b>	(1,139)
<b>Financing activities</b>			
Payment of dividend		(23,478)	(22,792)
Proceeds from Subordinated debt		-	(3,000)
Interest on Tier 1 perpetual bond		(4,548)	(3,462)
<b>Net cash used in financing activities</b>		<b>(28,026)</b>	(29,254)
<b>Decrease in cash and cash equivalents</b>		<b>(55,688)</b>	(100,931)
Cash and cash equivalents at the beginning of the period		502,493	341,881
<b>Cash and cash equivalents at the end of the period</b>		<b>446,805</b>	240,950
<b>Representing:</b>			
Cash and balances with Central Bank	3	368,021	399,965
Due from Bank ( maturing within 3 months)		102,829	45,780
Due to Bank ( maturing within 3 months)		(24,045)	(204,795)
		<b>446,805</b>	240,950

The attached notes 1 to 27 form part of the interim condensed financial statements.

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**As at 30 June 2017 (Un-audited)**

<i>(RO'000)</i>	Share capital	Share premium	Legal reserve *	Other non-distributable reserves*	Proposed cash dividend	Proposed stock dividend	Retained earnings	Total	Tier 1 Perpetual bond	Total
Balance at 1 January 2017	147,478	34,465	49,159	46,196	23,478	7,374	114,764	422,914	115,500	538,414
Total comprehensive income for the period	-	-	-	(2,983)	-	-	26,057	23,074	-	23,074
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Issue of bonus shares	7,374	-	-	-	-	(7,374)	-	-	-	-
Dividend paid during the period	-	-	-	-	(23,478)	-	-	(23,478)	-	(23,478)
<b>Balance at 30 June 2017</b>	<b>154,852</b>	<b>34,465</b>	<b>49,159</b>	<b>43,213</b>	-	-	<b>136,273</b>	<b>417,962</b>	<b>115,500</b>	<b>533,462</b>
Balance at 1 January 2016	134,071	34,465	47,737	40,596	22,792	13,407	106,089	399,157	115,500	514,657
Total comprehensive income for the period	-	-	-	(752)	-	-	29,395	28,643	-	28,643
Transfer to retained earnings	-	-	-	(3,000)	-	-	3,000	-	-	-
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(3,462)	(3,462)	-	(3,462)
Issue of shares	13,407	-	-	-	-	(13,407)	-	-	-	-
Dividend paid during the period	-	-	-	-	(22,792)	-	-	(22,792)	-	(22,792)
<b>Balance at 30 June 2016</b>	<b>147,478</b>	<b>34,465</b>	<b>47,737</b>	<b>36,844</b>	-	-	<b>135,022</b>	<b>401,546</b>	<b>115,500</b>	<b>517,046</b>
Balance at 1 July 2016	147,478	34,465	47,737	36,844	-	-	135,022	401,546	115,500	517,046
Total comprehensive income for the period	-	-	-	(468)	-	-	26,384	25,916	-	25,916
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(4,548)	(4,548)	-	(4,548)
Transfer to subordinated funds reserve	-	-	-	9,820	-	-	(9,820)	-	-	-
Transfer to legal reserve	-	-	1,422	-	-	-	(1,422)	-	-	-
Proposed dividend	-	-	-	-	23,478	7,374	(30,852)	-	-	-
<b>Balance at 31 December 2016</b>	<b>147,478</b>	<b>34,465</b>	<b>49,159</b>	<b>46,196</b>	<b>23,478</b>	<b>7,374</b>	<b>114,764</b>	<b>422,914</b>	<b>115,500</b>	<b>538,414</b>

\*Transfers to legal reserve and subordinated debt reserve are made on an annual basis.

The attached notes 1 to 27 form part of the interim condensed financial statements.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Un-audited)**

**1 LEGAL STATUS AND PRINCIPAL ACTIVITIES**

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale banking, investment banking services and Islamic banking within the Sultanate of Oman with overseas branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on the Muscat Stock Exchange.

The bank employed 1,539 employees as of 30 June 2017 (30 June 2016-1,548 employees / 31 December 2016 - 1,544).

**2 SIGNIFICANT ACCOUNTING POLICIES**

The condensed interim financial statements of the bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2016.

The condensed interim financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the six months ended 30 June 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

The condensed interim financial statements are prepared in Rial Omani, rounded to the nearest thousands, except as indicated. The functional currencies of the bank's operations are as follows:

Sultanate of Oman:	Rial Omani
United Arab Emirates:	UAE Dirham
Egypt:	US Dollar

The interim condensed financial statements are prepared under the historical cost convention, modified to include revaluation of freehold land and buildings, measurement of derivative financial instruments and certain investments, either through profit and loss account or through other comprehensive income, at fair value.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**3 CASH AND BALANCES WITH CENTRAL BANKS**

	<i>30/06/2017</i>	<i>30/06/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	<b>55,646</b>	68,172	46,587
Treasury bills	-	2,658	253
Other balances with Central Banks	<b>312,375</b>	329,135	464,254
<b>Cash and cash equivalents</b>	<b>368,021</b>	399,965	511,094
Capital deposit with Central Bank of Oman	<b>500</b>	500	500
<b>Cash and balances with Central Banks</b>	<b>368,521</b>	400,465	511,594

The capital deposit with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

**4 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)**

	<i>30/06/2017</i>	<i>30/06/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	<b>17,325</b>	29,549	25,218
Placements with banks	<b>88,880</b>	44,071	56,078
Demand balances	<b>41,548</b>	29,217	34,102
<b>Due from banks and other money market placements</b>	<b>147,753</b>	102,837	115,398
Less: allowance for credit losses	<b>(87)</b>	(90)	(68)
<b>Net due from banks and other money market placements</b>	<b>147,666</b>	102,747	115,330

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**5 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET)**

	<i>30/06/2017</i>	<i>30/06/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Overdrafts	<b>97,063</b>	86,262	87,419
Personal loans	<b>1,351,065</b>	1,325,375	1,339,213
Other loans	<b>1,438,017</b>	1,475,150	1,341,664
Gross loans and advances	<b>2,886,145</b>	2,886,787	2,768,296
Less: Allowance for credit losses	<b>(103,322)</b>	(94,038)	(98,015)
Net loans and advances	<b>2,782,823</b>	2,792,749	2,670,281

Gross loans and advances include RO 127 million due from related parties at 30 June 2017 (30 June 2016 – RO 68.5 million, 31 December 2016 – RO 99 million).

The movement in the provision for impairment of loans and advances presented as loan loss provisions and reserved interest is set out below:

<b>Allowance for credit losses</b>	<i>6 months</i>	<i>6 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/06/2017</i>	<i>30/06/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	<b>85,372</b>	76,743	76,743
Provided during the period / year	<b>9,810</b>	9,224	19,646
Recovered/ released during the period / year	<b>(504)</b>	(301)	(2,028)
Written off during the period / year	<b>(4,756)</b>	(3,743)	(8,834)
Translation difference	-	(39)	(155)
Balance at end of period / year	<b>89,922</b>	81,884	85,372

<b>Reserved interest</b>	<i>6 months</i>	<i>6 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/06/2017</i>	<i>30/06/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	<b>12,643</b>	11,463	11,463
Reserved during the period / year	<b>2,204</b>	1,984	3,905
Recovered/ released during the period / year	<b>(1,169)</b>	(309)	(541)
Written off during the period / year	<b>(278)</b>	(974)	(2,135)
Translation difference	-	(10)	(49)
Balance at end of period / year	<b>13,400</b>	12,154	12,643

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity.

As of 30 June 2017 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 89 million, (30 June 2016 – RO 69 million and 31 December 2016 – RO 74 million).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**6 FINANCIAL INVESTMENTS**

	<i>Carrying value 30/06/2017 RO'000</i>	<i>Carrying value 30/06/2016 RO'000</i>	<i>Carrying value 31/12/2016 RO'000</i>
<b>A. Held for trading</b>			
<b>Quoted investments- Oman</b>			
Government Sukuk	3,000	3,000	3,000
Banking and investment sector	550	-	-
Government Development Bonds	85,732	62,259	61,740
Equities	36	92	299
	<b>89,318</b>	<b>65,351</b>	<b>65,039</b>
<b>Quoted investments- Foreign</b>			
Equities	206	137	609
	<b>206</b>	<b>137</b>	<b>609</b>
<b>Total held for trading</b>	<b>89,524</b>	<b>65,488</b>	<b>65,648</b>
<b>B. Available-for-sale</b>			
<b>Quoted investments- Oman</b>			
Banking and investment sector	860	590	870
Manufacturing sector	2,606	163	141
Service sector	20,499	12,731	13,812
	-	-	-
	<b>23,965</b>	<b>13,484</b>	<b>14,823</b>
<b>Quoted investments- Foreign</b>			
Banking and investment sector	2,622	314	332
Service sector	3,599	3,654	3,602
	<b>6,221</b>	<b>3,968</b>	<b>3,934</b>
<b>Unquoted investments</b>			
Banking and investment sector	8,154	8,388	8,355
Manufacturing sector	3,483	3,483	3,483
Service sector	576	350	351
	<b>12,213</b>	<b>12,221</b>	<b>12,189</b>
<b>Total available-for-sale</b>	<b>42,399</b>	<b>29,673</b>	<b>30,946</b>
<b>C. Held to maturity</b>			
<b>Quoted investments- Oman</b>			
Government Development Bonds	31,039	47,786	18,874
Manufacturing sector	5,775	5,775	5,775
Government Sukuk	963	-	-
	<b>37,777</b>	<b>53,561</b>	<b>24,649</b>
<b>Quoted investments- Overseas</b>			
Government Development Bonds	5,113	5,244	5,165
Banking Sector	1,972	1,980	1,975
	<b>7,085</b>	<b>7,224</b>	<b>7,140</b>
<b>Total Held to maturity</b>	<b>44,862</b>	<b>60,785</b>	<b>31,789</b>
<b>TOTAL FINANCIAL INVESTMENTS</b>	<b>176,785</b>	<b>155,946</b>	<b>128,383</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**6 FINANCIAL INVESTMENTS (continued)**

**Details of significant investments**

Details of investments exceeding 10% of the carrying value of the bank's investment are as follows:

	<i>Bank's portfolio %</i>	<i>Carrying value RO'000</i>
<b><u>30 June 2017</u></b>		
Government Development Bonds-Oman	<b>66.1</b>	<b>116,771</b>
<b><u>30 June 2016</u></b>		
Government Development Bonds-Oman	70.6	110,045
<b><u>31 December 2016</u></b>		
Government Development Bonds-Oman	62.8	80,614

**7 PREMISES AND EQUIPMENT**

	<i>Freehold land, buildings and leasehold improvements RO'000</i>	<i>Motor vehicles, furniture and equipment RO'000</i>	<i>Capital work in progress RO'000</i>	<i>Total RO'000</i>
<b>Reconciliation of carrying amount:</b>				
Balance at 1 January 2017, net of accumulated depreciation	12,492	7,900	25,953	46,345
Additions	173	471	12,137	12,781
Disposal	-	(2)	-	(2)
Transfers	196	261	(457)	-
Translation difference	1	-	-	1
Depreciation	(464)	(1271)	-	(1,735)
<b>Balance at 30 June 2017, net of accumulated depreciation</b>	<b>12,398</b>	<b>7,359</b>	<b>37,633</b>	<b>57,390</b>
At cost / valuation	<b>27,280</b>	<b>34,729</b>	<b>37,633</b>	<b>99,642</b>
Accumulated depreciation	<b>(14,882)</b>	<b>(27,370)</b>	<b>-</b>	<b>(42,252)</b>
<b>Net carrying value at 30 June 2017</b>	<b>12,398</b>	<b>7,359</b>	<b>37,633</b>	<b>57,390</b>
Net carrying value at 30 June 2016	11,638	5,546	20,924	38,108

**8 OTHER ASSETS**

	<b>30/06/2017 RO'000</b>	30/06/2016 RO'000	31/12/2016 RO'000
Interest receivable and others	<b>36,229</b>	21,166	18,447
Positive fair value of derivatives (note 26)	<b>4,775</b>	14,144	8,397
Customers' indebtedness for acceptances (note 11)	<b>29,359</b>	30,019	33,078
Deferred tax (note 12)	<b>2,085</b>	938	828
	<b>72,448</b>	66,267	60,750

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS**

	<b>30/06/2017</b>	30/06/2016	31/12/2016
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current accounts	<b>924,621</b>	1,050,073	850,334
Savings accounts	<b>611,177</b>	611,586	603,851
Term deposits	<b>1,051,168</b>	778,101	945,176
	<b>2,586,966</b>	2,439,760	2,399,361

**10 EURO MEDIUM TERM NOTES**

The Bank in 2014 had issued a 5-year, USD 500 million Regulation S, bond under its Euro Medium Term Note (EMTN) programme of USD 600 million with regional and international investors. Subsequently during July 2016 the bank concluded a tap issuance for USD 100 million bringing the total issued amount to USD 600 million. The bonds are listed on the Irish Stock Exchange and are governed by English law. The carrying amount of EMTN is stated after taking into account the amount of MTM value of the fair value hedge.

**11 OTHER LIABILITIES**

	<b>30/06/2017</b>	30/06/2016	31/12/2016
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable and other accruals	<b>49,327</b>	40,042	41,350
Negative fair value of derivatives (note 26)	<b>3,805</b>	5,700	5,634
Liabilities under acceptances (note 8)	<b>29,359</b>	30,019	33,078
	<b>82,491</b>	75,761	80,062

**12 TAXATION**

	<b>30/06/2017</b>	30/06/2016	31/12/2016
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Statement of comprehensive income</b>			
Current period/year	<b>5,282</b>	4,289	7,636
Deferred tax adjustments	<b>(1,162)</b>	-	-
	<b>4,120</b>	4,289	7,636

The bank is liable to income tax at the following rates:

- Sultanate of Oman: 15% of consolidated taxable income
- United Arab Emirates: 20% of taxable income
- Egypt: 20% of taxable income (with effect from 2007)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**12 TAXATION (continued)**

Set out below is reconciliation between incomes taxes calculated on accounting profits with income tax expense for the period:

	<b>30/06/2017</b>	30/06/2016	31/12/2016
	<b>RO'000</b>	RO'000	RO'000
Accounting profit	<b>30,177</b>	33,684	63,415
Tax at applicable rate	<b>4,527</b>	4,042	7,610
Non-deductible expenses	<b>(16)</b>	34	(16)
Tax exempt revenues	<b>(814)</b>	(787)	(814)
Others	<b>1,585</b>	1,000	999
	<b>5,282</b>	4,289	7,779

The bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2011.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2014.

	<b>30/06/2017</b>	30/06/2016	31/12/2016
	<b>RO'000</b>	RO'000	RO'000
<b>Tax liability</b>			
Income tax and other taxes – Current year	<b>5,282</b>	4,289	7,779
Income tax and other taxes – Prior years	<b>1,129</b>	(147)	(373)
	<b>6,411</b>	4,142	7,406

	<b>30/06/2017</b>	30/06/2016	31/12/2016
	<b>RO'000</b>	RO'000	RO'000
<b>Recognised deferred tax assets and liabilities</b>			
Deferred tax assets and liabilities are attributable to the following:			
Provisions	<b>2,034</b>	929	871
Available-for-sale investments	<b>51</b>	9	(43)
	<b>2,085</b>	938	828

Deferred tax is calculated at 15% (2016 – 12%).

**13 SUBORDINATED DEBT**

	<b>30/06/2017</b>	30/06/2016	31/12/2016
	<b>RO'000</b>	RO'000	RO'000
At 1 January	<b>49,100</b>	52,100	52,100
Redeemed during the period/year	<b>-</b>	(3,000)	(3,000)
	<b>49,100</b>	49,100	49,100

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**14 OTHER NON-DISTRIBUTABLE RESERVES**

	<i>Available for sale reserve</i>	<i>Revaluation reserve</i>	<i>Subordinated debt reserve</i>	<i>Total</i>
	<i>RO '000</i>	<i>RO '000</i>	<i>RO '000</i>	<i>RO '000</i>
At 1 January 2017	1,111	4,385	40,700	46,196
Net movement on available for sale	(3,077)	-	-	(3,077)
Tax effect of net results on available for sale	94	-	-	94
<b>At 30 June 2017</b>	<b>(1,872)</b>	<b>4,385</b>	<b>40,700</b>	<b>43,213</b>
At 30 June 2016	1,579	4,385	30,880	36,844

- (i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.
- (ii) The subordinated debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 13). The reserve is available for transfer back to retained earning upon maturity of the subordinated debt.

**15 TIER 1 PERPETUAL BOND**

On 18 Nov 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000.

The Tier 1 Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its sole discretion on 18 Nov 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the Central Bank of Oman.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.875% which is the aggregate of margin and 5 year mid-swap rate and credit margin that was prevailing at the time of issuance. The mid-swap rate will be reset at end of every fifth year. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the Bank's discretion.

These securities form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulations (BM 1114).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**16 CONTINGENT LIABILITIES AND COMMITMENTS**

	<i>30/06/2017</i>	<i>30/06/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Guarantees	<b>407,301</b>	420,338	463,564
Documentary letters of credit	<b>86,470</b>	95,979	80,134
Undrawn commitment to lend	<b>39,634</b>	130,084	238,031
	<b>533,405</b>	646,401	781,729

Contingent liabilities include RO 0.12 million (30 June 2016 – RO 0.2 million and 31 December 2016– RO 0.4 million) relating to non-performing loans.

**17 INTEREST INCOME**

Interest bearing assets earned interest at an overall rate of 5.18% for the six months period ended 30 June 2017 (30 June 2016 – 4.76% and 31 December 2016 – 4.90%).

**18 INTEREST EXPENSE**

For the six months period ended 30 June 2017, the average overall cost of funds was 1.93% (30 June 2016-1.30% and 31 December 2016 – 1.43%)

**19 OTHER OPERATING INCOME**

	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30/06/2017</i>	<i>30/06/2016</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	<b>2,362</b>	2,369
Fees and commissions	<b>10,091</b>	8,031
Net income from sale of investments	<b>147</b>	1,451
Income from bonds	<b>2,112</b>	1,815
Dividend income	<b>1,174</b>	546
Service charges	<b>2,197</b>	3,087
Miscellaneous income	<b>660</b>	559
	<b>18,743</b>	17,858

**20 OTHER OPERATING EXPENSES**

	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30/06/2017</i>	<i>30/06/2016</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	<b>3,072</b>	3,129
Operating and administration expenses	<b>7,983</b>	7,547
	<b>11,055</b>	10,676

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**21 ASSET LIABILITY MISMATCH**

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

**30 June 2017**

Maturities	<i>Assets</i> <i>RO'000</i>	<i>Equity, subordinated</i> <i>funds and liabilities</i> <i>RO'000</i>	<i>Mismatch</i> <i>RO'000</i>
0 - 3 month	1,103,288	772,590	330,698
3 - 12 month	280,372	933,758	(653,386)
1 – 5 years	714,750	873,615	(158,865)
More than 5 years	1,507,223	1,025,670	481,553
<b>Total</b>	<b>3,605,633</b>	<b>3,605,633</b>	<b>-</b>

**30 June 2016**

Maturities	<i>Assets</i> <i>RO'000</i>	<i>Equity, subordinated</i> <i>funds and liabilities</i> <i>RO'000</i>	<i>Mismatch</i> <i>RO'000</i>
0 - 3 month	1,061,307	967,798	93,509
3 - 12 month	377,989	755,003	(377,014)
1 – 5 years	675,003	830,047	(155,044)
More than 5 years	1,441,983	1,003,434	438,549
<b>Total</b>	<b>3,556,282</b>	<b>3,556,282</b>	<b>-</b>

**31 December 2016**

Maturities	<i>Assets</i> <i>RO'000</i>	<i>Equity, subordinated</i> <i>funds and liabilities</i> <i>RO'000</i>	<i>Mismatch</i> <i>RO'000</i>
0 - 3 month	1,092,334	804,340	287,994
3 - 12 month	326,065	891,932	(565,867)
1 – 5 years	647,880	834,478	(186,598)
More than 5 years	1,466,404	1,001,933	464,471
<b>Total</b>	<b>3,532,683</b>	<b>3,532,683</b>	<b>-</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**22 RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the bank conducts transactions with certain of its Directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows

	<u>30/06/2017</u>			<u>31/12/2016</u>		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Loans and advances	-	126,577	126,577	-	99,039	99,039
Customers' deposits	52,940	46,816	99,756	82,292	35,304	117,596
Due from banks	19,220	9,625	28,845	55	13,668	13,723
Due to banks	369	-	369	28,917	-	28,917
Subordinated debt	14,500	4,000	18,500	14,500	4,000	18,500
Letters of credit, guarantees and acceptances	98	1,380	1,478	118	5,348	5,466
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	218	-	218	422	-	422
Investments	1,981	-	1,981	1,918	-	1,918

The statement of comprehensive income includes the following amounts in relation to transactions with related parties:

	<u>30/06/2017</u>			<u>30/06/2016</u>		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Interest income	25	2,828	2,853	-	1,266	1,266
Commission income	73	28	101	74	22	96
Interest expense	1,477	525	2,002	1,782	129	1,911
Other expenses	-	231	231	-	216	216
Senior management compensation:				<b>6 months ended</b>	<b>6 months ended</b>	
Salaries and other short term benefits				<b>30/06/2017</b>	<b>30/06/2016</b>	
				<b>RO'000</b>	<b>RO'000</b>	
- Fixed				<b>1,632</b>	1,439	
- Discretionary				<b>1,333</b>	1,211	
				<b>2,965</b>	<b>2,650</b>	

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2017 (Unaudited)**

**23 SHAREHOLDERS**

As of 30 June 2017, the shareholders of the bank who own 10% or more of the bank's shares:

	<i>Number of shares '000</i>	<i>% Holding</i>
The Commercial Bank of Qatar	540,431	34.90%
Suhail Bahwan Group (Holdings) LLC	228,318	14.74%
Civil Service Employees Pension Fund	177,264	11.45%

The percentage shareholding is calculated based on the total shares of the bank outstanding at the reporting date.

**24 SEGMENT REPORTING**

For management purposes, the bank is organised into four operating segments based on business units and are as follows:

- Retail banking offers various products and facilities to individual retail and high networth customers to meet everyday banking needs. This includes asset products like Personal Loans, Housing Loan, Credit Cards and Term Loans and liability products like Savings account, Current account & Term Deposits.
- Wholesale banking delivers a variety of products and services to Corporate customers that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes Investment banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- Commercial banking covers the mid-tier corporate and SME customers offering the entire spectrum of products to suit their business needs. It also includes international operations of UAE and Egypt and Islamic banking which offers products as per Sharia principles.
- Funding Center – The Funding center is responsible for balancing and managing the liquidity of funds within the bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Segment information by business line is as follows:

<i>6 month ended</i>	<i>Retail banking RO'000</i>	<i>Wholesale banking RO'000</i>	<i>Commercial banking RO'000</i>	<i>Funding Center RO'000</i>	<i>Total RO'000</i>
<b>30-Jun-2017</b>					
Operating Income	27,530	21,713	10,945	5,469	65,658
Net Profit	8,959	17,492	(2,101)	1,707	26,057
Total Assets	1,245,761	1,235,853	520,553	603,466	3,605,633

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (unaudited)**

**24 SEGMENT REPORTING (Continued)**

<i>6 month ended</i>	<i>Retail banking</i> <i>RO'000</i>	<i>Wholesale banking</i> <i>RO'000</i>	<i>Commercial banking</i> <i>RO'000</i>	<i>Funding Center</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
<i>30-Jun-2016</i>					
Operating Income	25,842	22,468	10,676	8,824	67,810
Net Profit	6,946	15,463	1,953	5,033	29,395
Total Assets	1,220,090	1,196,861	611,935	527,396	3,556,282

For management purposes the bank also reports the segment information of its operations by the following geographical locations:

- i) Oman
- ii) United Arab Emirates (UAE)
- iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis. Segment information by geography is as follows:

<b>For the period ended 30 June 2017</b>	<b><i>Oman</i></b> <b><i>RO'000</i></b>	<b><i>UAE</i></b> <b><i>RO'000</i></b>	<b><i>Egypt</i></b> <b><i>RO'000</i></b>	<b><i>Total</i></b> <b><i>RO'000</i></b>
Interest income and Income from Islamic financing and Investment activities	43,107	3,631	177	46,915
Other operating income	17,766	966	11	18,743
<b>Operating income</b>	<b>60,873</b>	<b>4,597</b>	<b>188</b>	<b>65,658</b>
Operating expenses	(28,194)	(2,184)	(110)	(30,488)
<b>Operating profit</b>	<b>32,679</b>	<b>2,413</b>	<b>78</b>	<b>35,170</b>
Total impairment losses (net)	(605)	(4,463)	75	(4,993)
<b>Segment profit for the period</b>	<b>27,958</b>	<b>(2,050)</b>	<b>149</b>	<b>26,057</b>
<b>Other information</b>				
<b>Segment assets</b>	<b>3,380,342</b>	<b>205,466</b>	<b>19,825</b>	<b>3,605,633</b>
<b>Segment capital expenses</b>	<b>12,617</b>	<b>164</b>	<b>-</b>	<b>12,781</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (unaudited)**

**24 SEGMENT REPORTING (Continued)**

For the period ended 30 June 2016	<i>Oman</i> <i>RO'000</i>	<i>UAE</i> <i>RO'000</i>	<i>Egypt</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Interest income and Income from Islamic financing and Investment activities	46,207	3,603	142	49,952
Other operating income	16,621	1,273	(36)	17,858
Operating income	62,828	4,876	106	67,810
Operating expenses	(26,768)	(1,956)	(209)	(28,933)
Operating profit	36,060	2,920	(103)	38,877
Total impairment losses (net)	(4,167)	(1,025)	(1)	(5,193)
Segment profit for the period	27,992	1,518	(115)	29,395
Other information				
Segment assets	3,229,947	305,373	20,962	3,556,282
Segment capital expenses	4,746	51	-	4,797

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (unaudited)**

**25 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

**Valuation models**

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

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

The following table shows an analysis of financial instruments other than derivatives instruments recorded at fair value by level of the fair value hierarchy:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
<i>30 June 2017</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Investments – held for trading:</b>			
Government development bonds	85,732	-	85,732
Government Sukuk	3,000	-	3,000
Banking and investment sector	550	-	550
Quoted equities	242	-	242
<b>Total</b>	<b>89,524</b>	<b>-</b>	<b>89,524</b>
<b>Investments - available for sale:</b>			
Quoted equities	30,186	-	30,186
Other unquoted equities	-	12,213	12,213
<b>Total</b>	<b>30,186</b>	<b>12,213</b>	<b>42,399</b>
<b>Total financial assets</b>	<b>119,710</b>	<b>12,213</b>	<b>131,923</b>

Financial instruments at level 2 are valued based on counter party valuation, quoted forward rates and yield curves.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (unaudited)**

**25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

<i>30 June 2016</i>	<i>Level 1</i> <i>RO'000</i>	<i>Level 2</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Investments – held for trading:			
Government development bonds	62,259	-	62,259
Government Sukuk	3,000	-	3,000
Quoted equities	229	-	229
<b>Total</b>	<b>65,488</b>	<b>-</b>	<b>65,488</b>
Investments - available for sale:			
Quoted equities	17,452	-	17,452
Other unquoted equities	-	12,221	12,221
<b>Total</b>	<b>17,452</b>	<b>12,221</b>	<b>29,673</b>
<b>Total financial assets</b>	<b>82,940</b>	<b>12,221</b>	<b>95,161</b>

<i>31 December 2016</i>	<i>Level 1</i> <i>RO'000</i>	<i>Level 2</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Investments – held for trading:			
Government development bonds	61,740	-	61,740
Government Sukuk	3,000	-	3,000
Quoted equities	908	-	908
<b>Total</b>	<b>65,648</b>	<b>-</b>	<b>65,648</b>
Investments - available for sale:			
Quoted equities	18,757	-	18,757
Other unquoted equities	-	12,189	12,189
<b>Total</b>	<b>18,757</b>	<b>12,189</b>	<b>30,946</b>
<b>Total financial assets</b>	<b>84,405</b>	<b>12,189</b>	<b>96,594</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**26 DERIVATIVES**

	<i>Positive fair value (Note 8) RO'000</i>	<i>Negative fair value (Note 10) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months RO'000</i>	<i>3 – 12 months RO'000</i>	<i>Above 1 Year RO'000</i>
<i>30 June 2017</i>						
<i>Derivatives</i>						
Fair value hedge	1,673	-	192,500	-	-	192,500
Interest rate swaps	2,673	(2,673)	105,737	2,926	13,437	89,374
Forward foreign exchange purchase contracts	13	(464)	181,969	153,793	27,872	304
Forward foreign exchange sales contracts	405	(657)	181,969	153,615	28,310	44
Currency options	11	(11)	7,463	3,474	3,989	-
<b>Total</b>	<b>4,775</b>	<b>(3,805)</b>	<b>669,638</b>	<b>313,808</b>	<b>73,608</b>	<b>282,222</b>
<i>30 June 2016</i>						
<i>Derivatives</i>						
Fair value hedge	7,313	-	192,500	-	-	192,500
Interest rate swaps	5,101	(5,101)	109,956	2,125	11,691	96,140
Forward foreign exchange purchase contracts	517	(434)	211,903	137,996	73,907	-
Forward foreign exchange sales contracts	1,213	(165)	211,903	139,314	72,589	-
Currency Options	-	-	1,039	780	259	-
<b>Total</b>	<b>14,144</b>	<b>(5,700)</b>	<b>727,301</b>	<b>280,215</b>	<b>158,446</b>	<b>288,640</b>
<i>31 December 2016</i>						
<i>Derivatives</i>						
Fair value hedge	2,105	-	192,500	-	-	192,500
Interest rate swaps	2,981	(2,981)	112,152	2,660	14,484	95,008
Forward purchase contracts	821	(2)	187,531	173,133	14,398	-
Forward sales contracts	2,432	(2,593)	187,531	174,155	13,376	-
Currency options	58	(58)	2,835	2,159	676	-
<b>Total</b>	<b>8,397</b>	<b>(5,634)</b>	<b>682,549</b>	<b>352,107</b>	<b>42,934</b>	<b>287,508</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2017 (Unaudited)**

**27 LIQUIDITY COVERAGE RATIO**

	June 2017		June 2016	
	Total Unweighted Value (average) RO'000	Total Weighted Value (average) RO'000	Total Unweighted Value (average) RO'000	Total Weighted Value (average) RO'000
<b>High quality liquid assets</b>				
<b>Total High Quality Liquid Assets (HQLA)</b>	-	<b>510,755</b>	-	444,055
<b>Cash outflows</b>				
Stable deposits	<b>621,092</b>	<b>31,055</b>	618,723	30,936
Less stable deposits	<b>117,561</b>	<b>11,756</b>	133,993	13,399
<b>Retail deposits and deposits from small business customers</b>	<b>738,653</b>	<b>42,811</b>	752,716	44,335
Unsecured wholesale funding, of which:				
Operational deposits (all counterparties) and deposits in networks of cooperative banks	<b>1,007,579</b>	<b>383,196</b>	985,899	403,266
Additional requirements, of which				
Credit and liquidity facilities	<b>33,785</b>	<b>3,379</b>	14,619	1,462
Other contingent funding obligations	<b>465,146</b>	<b>25,359</b>	587,652	52,628
<b>Total cash outflows</b>	-	<b>454,744</b>	-	501,692
<b>Cash inflows</b>				
Inflows from fully performing exposures	<b>378,047</b>	<b>259,360</b>	439,349	262,974
Other cash inflows	<b>24,034</b>	<b>24,034</b>	35,039	35,039
<b>Total cash inflows</b>	<b>402,081</b>	<b>283,394</b>	474,388	298,013
<b>Total high quality liquid assets</b>		<b>510,755</b>		444,055
<b>Total net cash outflows</b>		<b>171,350</b>		203,679
<b>Liquidity coverage ratio (%)</b>		<b>298.08</b>		218.02