

BANK NIZWA SAOG
Statement of sources and uses of charity fund
for the year ended 31 December 2015

Sources of charity fund	2015	2014
	RO	RO
Balance as at 1 January	-	994
Non-Islamic income for the year	6,134	4,071
Total source	6,134	5,065
Use of charity fund (Bank Muscat Charity Project Fund)	6,134	5,065
Undistributed charity fund as at 31 December	-	-

There are some deals were highlighted as a sharia non-compliance worth of OMR 8,404 profit which are still under the process of finalizing and making the final decision in which to be transferred or not.

Notes to the financial statements from page 8 to 48 form an integral part of these financial statements.

Report of the Auditors – page 2.

BANK NIZWA SAOG

Notes to the financial statements

for the year ended 31 December 2015

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Nizwa SAOG ("the Bank") was registered in the Sultanate of Oman as a public joint stock company under registration number 1152878 on 15 August 2012. The Bank's shares are listed on the Muscat Securities Market "MSM" and its principle place of business is in Muscat, Sultanate of Oman.

The Bank's business operations commenced on 23 December 2012 and it currently operates through eleven branches in the Sultanate under the banking license issued by the Central Bank of Oman on 19 December 2012.

The principal activities of the Bank are opening current, saving and investment accounts, providing Murabaha finance, Ijara financing and other Sharia compliant forms of financing as well as managing investors' money on the basis of Mudaraba in exchange for a profit share or agency in exchange for a fee, and excess profit as incentive providing commercial banking services and other investment activities.

The Bank's activities are regulated by the Central Bank of Oman ("CBO") and supervised by a Sharia Supervisory Board ("SSB") whose role is defined in Bank's Memorandum and Articles of Association.

At 31 December 2015, the Bank had 321 employees (2014: 282 employees).

Bank address: P O Box 1423, Postal Code 133, Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements has been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia rules and principles as determined by SSB and applicable laws and regulations issued by CBO. In accordance with requirements of AAOIFI, matters that are not covered by FAS, the Bank uses guidance from the relevant International Financial Reporting Standard.

Statement of restricted investment accountholders, statement of Qard fund and Zakat are not presented as these are not applicable.

2.2 Basis of measurement

The financial statements are prepared on historical cost basis, except for the measurement at fair value of certain investments carried at fair value.

2.3 Functional and presentation currency

The financial statements have been presented in Riyal Omani (RO) which is the functional currency of the Bank. Except as otherwise indicated, financial information presented in RO has been rounded off to the nearest Omani Riyal.

2.4 Use of estimates and judgements

The preparation of financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors including expectation of future events that are believed by the Bank to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

BANK NIZWA SAOG

Notes to the financial statements

for the year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below.

3.1 Cash and cash equivalents

For the purposes of the statement of cash flows cash and cash equivalents comprise cash in hand, non-restricted balance with the CBO, amounts due to / from banks and financial institutions, inter-bank Wakala, with remaining maturity of three months. Cash and cash equivalents are carried at cost at the reporting date.

3.2 Sales receivables and other receivables

- Sales receivables consist mainly of sales transaction agreements (Murabaha) stated net of deferred profits and provision for impairment. The Bank considers the promise made in the Murabaha to the purchase orderer as obligatory.
- Istisna receivables is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna receivables are stated net of deferred profits and provision for impairment.
- Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

3.3 Ijara Muntahia Bittamleek and Ijara income receivables

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Leased assets are depreciated over the life of the lease.

3.4 Wakala Bil Istithmar

Wakala Bil Istithmar is used as a short to medium and long term working capital financing tool. The Bank, in its capacity as the Principal (hereinafter referred to as the “Muwakkil”) appoints the Client as its Agent (hereinafter referred to as the “Wakil”) to manage the investment amount (hereinafter referred to as the “Investment Amount”) in Sharia-compliant activities that may be entered into, as agreed, by the Wakil on behalf of the Muwakkil. The prime objective of making such an investment is to generate profit from the business activities and get the Investment Amount paid back along with the profit amount, if any, on the Investment maturity date based on the anticipated profit rate. Investments

3.5 Investments

Investment in Ijarah asset

Operating Ijarah of the Bank as lessee:

Ijarah instalments are allocated over the financial periods of the lease term and recognized in the financial period in which these instalments are due. Ijarah instalments are presented in the lessee’s statement of income as Ijarah expenses. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made.

Operating Ijarah of the Bank as lessor:

When the Bank rents out to a client asset that was previously rented by the Bank; the leased asset is presented in the lessor’s statement of financial position under Investment in Ijarah assets.

Equity and debt type instruments at fair value through equity

This includes all equity and debt type instruments that are not fair valued through statement of income. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of unrestricted investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in statement of income.

BANK NIZWA SAOG**Notes to the financial statements***for the year ended 31 December 2015***3 SIGNIFICANT ACCOUNTING POLICIES (continued)****3.5 Investments (continued)*****Debt type instruments at amortized cost***

Debt type instruments which are managed on a contractual yield basis and are not held for trading and have been designated at fair value through statement of income are classified as debt type of instrument at amortized cost, such investment are carried at amortized cost less provisions for impairment in value. Amortization cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognized in statement of income when the investment is derecognized or impaired.

Investment in real estate

Investment in real estate is classified as held-for-use and is measured at fair value under the fair value model of Financial Accounting Standard No. 26 issued by AAOIFI. These are initially recognized at cost including transaction cost and subsequently measured at fair value. Unrealised gains arising from a change in the fair value of investment in real estate are recognised directly in equity under "Property fair value reserve" for the period in which it arises taking into consideration the split between the portions related to owners' equity and equity of investment accountholders. Unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the property fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the statement of income. In case there are unrealised losses relating to investment in real estate that have been recognised in the statement of income in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the statement of income.

The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the property fair value reserve account are recognised in the statement of income for the current financial period, taking into consideration the split between the portion related to owners' equity and the portion related to investment accountholders.

3.6 Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar assets) is derecognized when:

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires

3.7 Jointly and self-financed

Investments, financing and receivables that are jointly owned by the Bank and equity of unrestricted investment accountholders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by the Bank are classified under "self-financed".

BANK NIZWA SAOG**Notes to the financial statements***for the year ended 31 December 2015***3 SIGNIFICANT ACCOUNTING POLICIES (continued)****3.8 Fair value for financial assets**

For investments quoted in an active market, fair value is determined by reference to quoted market prices.

For financial instruments where there is no active market, fair value is normally based on comparison with the current market value of highly similar financial instruments.

Where the fair value of an investment cannot be reliably measured, it is stated at the fair value of consideration given or amortized cost and any impairment in the value are recorded in statement of income.

For Sales (Murabaha) receivables the fair value is determined at the end of the financial period at their cash equivalent value.

3.9 Fair value for non-financial assets

Market prices represent the fair value for non-financial assets. In case market prices are not available, they are assessed by taking average value of three assessments from experienced and certified parties.

3.10 Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives from the date the assets is brought in to use as follows:

	2015 Years	2014 Years
Furniture	5	5
Fixtures	10	5
Equipment	7	7
Motor vehicle	7	7
Computer hardware	5	5

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, and the impairment is recorded in the statement of income.

The useful lives of property and equipment are reviewed annually. If expected useful lives vary from the estimated ones, the change in estimate is adjusted prospectively.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

During the year the Bank has upgraded the useful life of its fixtures. This upgrade based on the expansion plan of the bank from where presence and location where the expected life period of utilization of assets will match same period, as a result, the expected useful life of fixtures has increased. The effect of these changes on actual and expected depreciation expense is as follows:

Amount in RO'	2015	2016	2017	2018	2019	Later
(Decrease) / Increase in depreciation	(149,268)	(447,804)	(447,804)	237,636	237,636	475,272

3.11 Intangible assets

Intangible assets are classified according to their useful life for a specified or unspecified period of time. Intangible assets with definite useful life are amortized over 10 years (2014: 5 years), and amortization is recorded in statement of income. For intangible assets with indefinite useful life, impairment in value is reviewed at the reporting date and any impairment in their value is recorded in statement of income.

Intangible assets arising from the Bank's operations are not capitalized and are recorded in the statement of income as incurred.

Any indications of impairment of intangible assets are reviewed at the reporting date; in addition, the useful lives of these assets are reviewed annually. If expected useful lives vary from the estimated ones the change in estimate is adjusted prospectively.

BANK NIZWA SAOG**Notes to the financial statements**

for the year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**3.11 Intangible assets (continued)**

During the year the Bank has upgraded the useful life of its intangibles assets. This upgraded based on the new development and modification of the core banking system in the light of which recently done in the current system to meet the bank requirements, as a result, the expected useful life of intangible assets has increased. The effect of these changes on actual and expected depreciation expense is as follows:

Amount in RO'	2015	2016	2017	2018	2019	Later
(Decrease) / Increase in amortization	(112,932)	(338,796)	(338,796)	198,576	198,796	397,152

3.12 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be measured reliably.

According to the regulations of the Central Bank of Oman; Banks are required to have general credit loss provisions, at least equivalent to 1% of the total financing and interbank 0.5% categorized as Standard and Special Mention. However, for personal finance a minimum general loss provision of 2% of the Standard and Special Mention.

Central Bank of Oman regulations are followed for non-performing assets based on days past due any profit accrual on these non-performing assets is suspended as per the regulations.

3.13 Equity of unrestricted investment accountholders

Equity of unrestricted investment accountholders are recognized when received by the Bank and measured by the amount received during the time of contracting. At the end of the financial period the equity investment accountholders are measured at the book value.

3.14 Profit equalization reserve

Profit equalization reserve, this is the amount appropriated by the Bank out of Mudaraba income before allocating the Bank's share as investment manager (Mudarib), in order to maintain a certain level of return on investment for unrestricted investment accountholders and increase owners' equity.

3.15 Investment risk reserve

Investment risk reserve is the amount appropriated by the Bank out of profit share of the unrestricted investment accountholders after allocating the Mudarib share, in order to cushion the effects of the risk of future investment losses. The terms and conditions whereby investment risk reserve can be set aside and utilized are determined and approved by the Sharia Supervisory Board of the Bank.

3.16 Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Omani Riyal at the mid-rate of exchange at the reporting date. All differences are taken into the statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment.

3.17 Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported when there is a Sharia or legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

BANK NIZWA SAOG**Notes to the financial statements***for the year ended 31 December 2015***3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)***3.18 Revenue recognition*****Sales receivables and other receivables***

Murabaha Profit from sales transactions is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised.

Istisna Profit from Istisna is recognised using proportionate allocation over the future financial period of credit whereby each financial period shall carry its portion of profits irrespective of whether or not cash received.

Ijara Muntahia Bittamleek Ijara income is recognised on a time apportioned basis over the Ijara term.

Wakala Bil Istethmar

Income from Wakala Bil Istethmar is recognised on a time apportioned basis so as to yield a constant periodic rate of return based on the balance outstanding.

Investment in Ijarah asset

Ijarah revenue is allocated proportionately to the financial periods in the lease term. Ijarah revenue is presented in the lessor's statement of income as Ijarah revenue. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, be allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made. Ijarah receivables are measured at their cash equivalent value.

Bank's share as Mudarib of income from equity of unrestricted investment accountholders

The Bank's share as a Mudarib for managing equity of unrestricted investment accountholders is accrued based on the terms and conditions of the related Mudarib agreements.

Fee and commission

Fees and commission income is recognised upon rendering the services.

Dividends

Dividends are recognised when the right to receive payment is established.

Income from investments

Income from investments is recognised when earned.

Rental income from investment in real estate

Rental income is accounted for on a straight line basis over the term of the lease.

3.19 Return on equity of unrestricted investment accountholders

Investors' share of income is calculated based on income generated from joint investment accounts after deducting profit equalization reserve, Bank's share as Mudarib, fund provider and investment risk reserve. The investors' share of income is distributed to the investors based on average participation balance in the Mudaraba pool.

3.20 Employee benefits

Obligations for contributions to an unfunded defined benefit retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognized as an expense in statement of income as incurred.

The Company's obligation in respect of non-Omani terminal benefits, under an unfunded defined benefits retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods.

3.21 Directors' remuneration

Director's remuneration is calculated in accordance with the Commercial Companies Law of 1974 and approval of the Capital Market Authority (CMA).

BANK NIZWA SAOG

Notes to the financial statements

for the year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses including revenue and expenses that relate to transactions with any of the Bank's other components whose operating results are reviewed regularly by the management to make decisions about the resources allocated to each segment and assess its performance and for which discrete financial information is available. The Bank's primary format for reporting segmental information is business segment, based upon management internal reporting structure. The Bank's main business segments are comprised of retail, corporate and treasury and investment banking.

3.23 Taxation

Taxation is provided for based on the tax laws of Sultanate of Oman. Income tax comprises current and deferred tax. Income tax expense is recognised in statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Tax is calculated on figures calculated as per the requirements of International Financial Reporting Standards (IFRS).

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Differences in reconciliation of figures accounted for under AAOIFI and IFRS are taken as permanent differences, if any.

3.24 Earnings prohibited by Sharia

The Bank is committed to avoid recognising any income generated from Sharia non-compliant sources. Accordingly, all Sharia non-complaint income is credited to a charity fund and the Bank disburses these funds according to the Sharia Supervisory Board supervision and instructions.

3.25 Zakah

Calculation and payment of Zakah is the responsibility of individual Shareholders' and accountholders.

3.26 Sharia supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Sharia Supervisory Board of the Bank which meets quarterly and consists of three prominent Sharia scholars appointed by the General Assembly of Shareholders.

- Dr. Abdul-Sattar Abu Ghuddah Chairman
- Sheikh Dr. Mohammed Al-Gharbi Member
- Sheikh Ibrahim Al-Sawwafi Member

3.27 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

BANK NIZWA SAOG

Notes to the financial statements

for the year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.28 New standards, amendments and interpretations

New standards, amendments and interpretations effective from 1 January 2016

Amendments to FAS 27 “Investment Accounts” became effective as of 1 January 2016; the application of these amendments at the Bank level had no material impact on the disclosures in the Bank’s financial statements.

The Bank is assessing the potential impact of the above stated amendments.

BANK NIZWA SAOG**Notes to the financial statements**
for the year ended 31 December 2015**4 Cash and balances with Central Bank of Oman**

	2015	2014
	RO	RO
Cash in hand	4,057,807	2,743,049
Balances with Central Bank of Oman	10,314,629	22,152,713
Capital deposit with Central Bank of Oman	253,106	195,997
	<u>14,625,542</u>	<u>25,091,759</u>

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

5 Due from banks and financial institutions

Local banks – local currency	712,268	61,719
Foreign banks – foreign currency	2,602,883	2,866,948
	<u>3,315,151</u>	<u>2,928,667</u>

6 Inter-bank Wakala investments - net

	Jointly-financed	
Local banks – local currency	-	20,000,000
Foreign banks – foreign currency – less than one year	9,625,000	16,940,000
Foreign banks – foreign currency – more than one year	-	18,865,000
General provision	-	(94,325)
	<u>9,625,000</u>	<u>55,710,675</u>

7 Sales receivables and other receivables - net

	Jointly-financed	Self-financed	Total
	2015	2015	2015
	RO	RO	RO
Sales receivables - retail	77,255,912	1,635,217	78,891,129
Sales receivables - corporate	9,824,429	-	9,824,429
Istisna receivables - corporate	431,938	-	431,938
Ijara rent receivables - retail	2,634	-	2,634
Ijara rent receivables - corporate	253,022	-	253,022
Gross sales receivables and other receivables	<u>87,767,935</u>	<u>1,635,217</u>	<u>89,403,152</u>
Less:			
Deferred profit	(12,011,844)	(162,195)	(12,174,039)
General provision	(1,406,483)	(29,460)	(1,435,943)
Specific provision	(32,632)	-	(32,632)
Reserved profit	(2,055)	-	(2,055)
Net sales receivables and other receivables	<u>74,314,921</u>	<u>1,443,562</u>	<u>75,758,483</u>

BANK NIZWA SAOG**Notes to the financial statements**
for the year ended 31 December 2015**7 Sales receivables and other receivables – net (continued)**

	Jointly- financed	Self- financed	Total
	2014	2014	2014
	RO	RO	RO
Retail	53,325,969	1,170,151	54,496,120
Corporate	6,164,482	-	6,164,482
	<u>59,490,451</u>	<u>1,170,151</u>	<u>60,660,602</u>
Gross sales receivables and other receivables			
Less:			
Deferred profit	(8,416,265)	(115,424)	(8,531,689)
General provision	<u>(955,870)</u>	<u>(21,096)</u>	<u>(976,966)</u>
Net sales receivables and other receivables	<u>50,118,316</u>	<u>1,033,631</u>	<u>51,151,947</u>

The general provision movement against sales receivables is as follow:

	2015 RO	2014 RO
Balance at 1 January	976,966	291,344
General provision during the year	458,977	685,622
Balance at 31 December	<u>1,435,943</u>	<u>976,966</u>

The specific provision movement against sales receivables is as follow:

Specific provision during the year	<u>32,632</u>	-
Balance at 31 December	<u>32,632</u>	-

The reserved profit movement against sales receivables is as follow:

Profit reserved during the year	<u>2,055</u>	-
Balance at 31 December	<u>2,055</u>	-

Non-performing assets of sales receivables and other receivables, amounted to RO 130,524 with a percent 0.17% of net sales receivables and other receivables, as at of 31 December 2015 (31 December 2014: Nil).

Non-performing assets of sales receivables and other receivables after deducting profit reserve, amounted to RO 128,469 with a percent 0.17% of net sales receivables and other receivables, as at of 31 December 2015 (31 December 2014: Nil).

8 Financial assets at fair value through equity – Jointly financed

	Cost 2015 RO	Fair value 2015 RO
International un-listed Sukuk	1,909,488	1,891,307
International listed Sukuk	502,650	501,126
Regional listed Sukuk	2,957,719	2,839,500
Regional un-listed funds	5,052,859	5,072,460
Regional un-listed Shares	333,938	285,579
Local listed Sukuk	7,363,600	7,363,600
Local listed shares	58,378	58,378
Total	<u>18,178,632</u>	<u>18,011,950</u>

BANK NIZWA SAOG**Notes to the financial statements**

for the year ended 31 December 2015

8 Financial assets at fair value through equity – Jointly financed (continued)

	Cost	Fair value
	2014	2014
	RO	RO
Regional listed Sukuk	2,090,683	2,072,510
Regional un-listed shares	333,905	309,787
Local listed shares	58,378	57,210
Total	2,482,966	2,439,507

9 Financial assets at amortized cost

	Self-financed	
	2015	2014
	RO	RO
Local listed Sukuk	7,000,000	7,000,000
Total	7,000,000	7,000,000

10 Investment in Ijarah assets - net

	Jointly-financed	
	2015	2014
	RO	RO
Investment in Ijarah assets	-	7,427,515
General provision	-	(74,275)
Net investment in Ijarah assets	-	7,353,240

Investment in Ijarah asset has been classified in accordance with AAOIFI standard “FAS 8” Ijarah and Ijarah Muntahia Bittamleek; “When the Bank rents out to a client asset that was previously rented by the Bank; the leased asset is presented in the lessor’s statement of financial position under Investment in Ijarah assets”.

Investment in Ijarah asset has been financed from the Mudaraba commingled pool and classified as jointly financed. All profits generated and costs in relation to this investment will be subject to distribution between the Bank and the unrestricted investment accountholders as per profit distribution policy of the Bank.

Total amount of master lease agreement between the Bank as lessee and the owner as lessor is RO 8,100,000.

During the year, the Bank received a request for early settlement and accordingly the entire amount has been settled as at the reporting date.

11 Investment in real estate – held for sale

This represents investment in income generating industrial real estate; where 70% of the beneficial ownership is held by the Bank for a consideration of RO 14.175 million. Subsequently, the property has been leased under a master lease agreement for a period of ten years with a fixed rental amount.

Investment in real estate has been financed from Shareholders’ funds and classified as self-finance investment and not included in the Mudaraba pool ‘commingled pool’. All profits generated and costs in relation to the investment will be for the account of the Bank only and not subject to income distribution for the unrestricted investment accountholders.

The management believes that the fair value of investment in real estate is not materially different from its carrying value as at 31 December 2015. Further, the Bank has a plan for disinvestment by end of June 2016.

BANK NIZWA SAOG**Notes to the financial statements**
for the year ended 31 December 2015**12 Ijara Muntahia Bittamleek - Net**

	2015		
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	147,805,824	5,856,837	153,662,661
Accumulated depreciation	(6,222,838)	(247,616)	(6,470,454)
Net book value	<u>141,582,986</u>	<u>5,609,221</u>	<u>147,192,207</u>
Equipment			
Cost	12,470,957	-	12,470,957
Accumulated depreciation	(2,003,638)	-	(2,003,638)
Net book value	<u>10,467,319</u>	<u>-</u>	<u>10,467,319</u>
Total			
Cost	160,276,781	5,856,837	166,133,618
Accumulated depreciation	(8,226,476)	(247,616)	(8,474,092)
Net book value before general provision	<u>152,050,305</u>	<u>5,609,221</u>	<u>157,659,526</u>
General provision	<u>(2,023,042)</u>	<u>(56,093)</u>	<u>(2,079,135)</u>
Net book value after general provision	<u>150,027,263</u>	<u>5,553,128</u>	<u>155,580,391</u>

	2014		
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	52,810,358	2,581,432	55,391,790
Accumulated depreciation	(1,605,522)	(117,663)	(1,723,185)
Net book value	<u>51,204,836</u>	<u>2,463,769</u>	<u>53,668,605</u>
Equipment			
Cost	6,830,000	-	6,830,000
Accumulated depreciation	(560,166)	-	(560,166)
Net book value	<u>6,269,834</u>	<u>-</u>	<u>6,269,834</u>
Total			
Cost	59,640,358	2,581,432	62,221,790
Accumulated depreciation	(2,165,688)	(117,663)	(2,283,351)
Net book value before general provision	<u>57,474,670</u>	<u>2,463,769</u>	<u>59,938,439</u>
General provision	<u>(574,747)</u>	<u>(24,638)</u>	<u>(599,385)</u>
Net book value after general provision	<u>56,899,923</u>	<u>2,439,131</u>	<u>59,339,054</u>

The general provision movement against Ijara Muntahia Bittamleek is as follow:

	2015	2014
	RO	RO
Balance at 1 January	599,385	138,382
Provision during the year	1,479,750	461,003
Balance at 31 December	<u>2,079,135</u>	<u>599,385</u>

13 Wakala Bil Istethmar - net

	2015	2014
	RO	RO
Wakala Bil Istethmar	38,027,808	17,850,000
General provision	(380,278)	(178,500)
Wakala Bil Istethmar - net	<u>37,647,530</u>	<u>17,671,500</u>

BANK NIZWA SAOG

Notes to the financial statements

for the year ended 31 December 2015

14 General Provision and specific provision movement

	2015 RO	2014 RO
Balance at 1 January	1,923,451	429,726
General provision reversed during the year on Inter-bank Wakala	(94,325)	94,325
General provision made during the year on sales receivables and other receivables	458,977	685,622
General provision reversed during the year on investment in Ijara assets	(74,275)	74,275
General provision made during the year on Ijara Muntahia Bittamleek	1,479,750	461,003
General provision made during the year on Wakala Bil Istethmar	201,778	178,500
Specific provision made during the year on Ijara rent receivables	32,632	-
General and specific provision expense	<u>2,004,537</u>	<u>1,493,725</u>
Balance at 31 December	<u>3,927,988</u>	<u>1,923,451</u>

15 Property and equipment - net

2015	Furniture & fixture RO	Equipment RO	Motor vehicle RO	Computer hardware RO	Capital work in progress RO	Total RO
Balance at 1 January 2015	3,915,943	693,837	86,350	1,575,004	264,708	6,535,842
Additions	92,045	24,044	75,751	79,948	320,846	592,634
Transfers	238,633	100,935	-	22,872	(362,440)	-
Balance at 31 December 2015	<u>4,246,621</u>	<u>818,816</u>	<u>162,101</u>	<u>1,677,824</u>	<u>223,114</u>	<u>7,128,476</u>
Accumulated Depreciation at 1 January 2015	(1,376,517)	(124,296)	(27,346)	(529,158)	-	(2,057,317)
Depreciation expense	(678,758)	(112,062)	(16,102)	(325,737)	-	(1,132,659)
Accumulated Depreciation at 31 December 2015	<u>(2,055,275)</u>	<u>(236,358)</u>	<u>(43,448)</u>	<u>(854,895)</u>	<u>-</u>	<u>(3,189,976)</u>
Carrying value at 31 December 2015	<u>2,191,346</u>	<u>582,458</u>	<u>118,653</u>	<u>822,929</u>	<u>223,114</u>	<u>3,938,500</u>
2014	Furniture & fixture RO	Equipment RO	Motor vehicle RO	Computer hardware RO	Capital work in progress RO	Total RO
Balance at 1 January 2014	3,503,554	446,787	71,500	1,246,048	160,862	5,428,751
Additions	121,145	133,155	14,850	283,452	554,489	1,107,091
Transfers	291,244	113,895	-	45,504	(450,643)	-
Balance at 31 December 2014	<u>3,915,943</u>	<u>693,837</u>	<u>86,350</u>	<u>1,575,004</u>	<u>264,708</u>	<u>6,535,842</u>
Accumulated Depreciation at 1 January 2014	(730,831)	(38,000)	(16,525)	(248,744)	-	(1,034,100)
Depreciation expense	(645,686)	(86,296)	(10,821)	(280,414)	-	(1,023,217)
Accumulated Depreciation at 31 December 2014	<u>(1,376,517)</u>	<u>(124,296)</u>	<u>(27,346)</u>	<u>(529,158)</u>	<u>-</u>	<u>(2,057,317)</u>
Carrying value at 31 December 2014	<u>2,539,426</u>	<u>569,541</u>	<u>59,004</u>	<u>1,045,846</u>	<u>264,708</u>	<u>4,478,525</u>

BANK NIZWA SAOG**Notes to the financial statements**
*for the year ended 31 December 2015***16 Intangible assets**

	Software	Capital work in progress	Total
	RO	RO	RO
Carrying value at 1 January 2015	1,845,025	65,369	1,910,394
Additions	187,831	206,788	394,619
Transfers	65,254	(65,254)	-
Amortization	(448,196)	-	(448,196)
Carrying value at 31 December 2015	<u>1,649,914</u>	<u>206,903</u>	<u>1,856,817</u>
	Software	Capital work in progress	Total
	RO	RO	RO
Carrying value at 1 January 2014	1,919,824	381,447	2,301,271
Additions	25,478	84,875	110,353
Transfers	400,953	(400,953)	-
Amortization	(501,230)	-	(501,230)
Carrying value at 31 December 2014	<u>1,845,025</u>	<u>65,369</u>	<u>1,910,394</u>

17 Other assets

	2015 RO	2014 RO
Deferred tax asset (Note 34)	2,937,242	2,734,306
Profit receivable	894,759	730,281
Prepaid expense	602,982	285,160
Refundable deposits	88,588	88,588
Others	36,167	17,328
	<u>4,559,738</u>	<u>3,855,663</u>

18 Inter-bank Wakala

	2015 RO	2014 RO
Local banks – foreign currency	2,695,000	11,126,500
Foreign banks – foreign currency maturing > 1 year	13,475,000	5,775,000
Foreign banks – foreign currency maturing < 1 year	770,000	-
	<u>16,940,000</u>	<u>16,901,500</u>

19 Customer accounts

	2015 RO	2014 RO
Current accounts	70,860,728	48,525,291
Margin accounts	127,931	164,889
	<u>70,988,659</u>	<u>48,690,180</u>

BANK NIZWA SAOG**Notes to the financial statement**
for the year ended 31 December 2015**20 Other liabilities**

	2015	2014
	RO	RO
Payment orders	8,220,721	6,237,985
Creditors and accruals	4,213,723	3,364,082
Profit payable	429,998	641,197
Others	228,521	60,994
	<u>13,092,963</u>	<u>10,304,258</u>

21 Equity of unrestricted investment accountholders

	2015	2014
	RO	RO
Unrestricted investment accountholders	73,597,787	42,280,807
Investment fair value reserve	(23,263)	(3,855)
Profit equalization reserve	727,885	126,690
Investment risk reserve	41,306	13,089
	<u>74,343,715</u>	<u>42,416,731</u>

Unrestricted investment accounts comprise Mudaraba deposits accepted by the Bank. The funds received from equity of unrestricted investment accountholders have been commingled and jointly invested by the Bank.

21.1 Basis of distribution the profit between owners' equity and unrestricted investment accountholders

The investment profits are distributed between owners' equity and unrestricted investment accountholders for the year 2015 and 2014 as follows:

	2015	2014
	Percentage	Percentage
Unrestricted investment accountholders share	50%	50%
Mudarib share	50%	50%

The investment risk reserve at 10 percent is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount the bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner equity and unrestricted investment accountholders.

The percentages of the profit allocation between owners' equity and unrestricted investment accountholders are as follows:

Account type	Participation factor		2015 average	2014 average
	RO	USD	rate of return	rate of return
Saving account	20% - 40%	15%	0.30%	0.28%
One month tenure	46% - 50%	23%-25%	0.58%	0.52%
Three months tenure	51% - 55%	25.5% - 27.5%	0.74%	0.61%
Six months tenure	61% - 68%	30.5% - 34%	1.09%	0.79%
Nine months tenure	66% - 73%	33% - 36.5%	1.13%	0.84%
One year tenure	71% - 78%	35.5% - 39%	1.29%	1.12%

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

BANK NIZWA SAOG**Notes to the financial statements***for the year ended 31 December 2015***21 Equity of unrestricted investment accountholders (continued)****21.2 Equity of unrestricted investment accountholders details**

Account type	2015	2014
	RO	RO
Saving account	62,347,468	35,396,409
Investment accounts:		
One month	61,290	123,000
Three months	813,397	578,851
Six months	2,296,533	1,091,563
Nine months	220,050	59,500
One year	7,859,049	5,031,484
	<u>73,597,787</u>	<u>42,280,807</u>

22 Paid up capital

The authorized share capital of the Bank is OMR 300,000,000 and the issued and paid up capital is OMR 150,000,000, divided into 1,500,000,000 shares of a nominal value of OMR 0.100 each.

At 31 December 2015, no shareholders' of the Bank owned 10% or more of the Bank's paid up capital.

23 Share premium

This represent share premium of RO 2,091,192 on issue of the shares of the Bank through IPO. Expenses incurred on issuance are netted off.

24 Reserves***Investment fair value reserve***

The fair value reserve includes the cumulative net change in fair value of the investment at fair value through equity net of tax.

Legal reserve

In accordance with the Commercial Company Law of 1974 annual appropriation of 10% of the net profit for the year is required to be made to legal reserve until such time that accumulated reserve equals to one third of the Bank paid up capital. Since the Bank is in losses no transfer has been made during the year.

25 Contingent liabilities and commitments**a) Contingent liabilities**

	2015	2014
	RO	RO
Letters of guarantee	19,181,545	11,042,630
Letters of credit	12,488,567	6,440,944
Acceptances	11,381,098	8,110,622
Bills for collection	189,174	360,797
Total contingent liabilities (a)	<u>43,240,384</u>	<u>25,954,993</u>

BANK NIZWA SAOG**Notes to the financial statements**
for the year ended 31 December 2015**25 Contingent liabilities and commitments (continued)****a) Contingent liabilities (continued)**

The table below analysis the concentration of contingent liabilities by economic sector:

	2015	2014
	RO	RO
Construction	22,918,619	13,756,876
Manufacturing	20,139,460	12,088,689
Service	74,083	44,468
Others	108,222	64,960
Total contingent liabilities (a)	43,240,384	25,954,993

b) Commitments

	2015	2014
	RO	RO
Unutilized limits	43,695,851	25,268,413
Total commitments (b)	43,695,851	25,268,413
Total contingent liabilities and commitments (a+b)	86,936,235	51,223,406

26 Sales receivables revenue

	Jointly-financed	
	31 December 2015	31 December 2014
	RO	RO
Retail	3,078,638	1,551,426
Corporate	415,441	286,578
	3,494,079	1,838,004

27 Ijara Muntahia Bittamleek revenue and Ijara assets

	Jointly-financed	
	31 December 2015	31 December 2014
	RO	RO
Ijara Muntahia Bittamleek – real estate	13,706,959	3,090,890
Ijara Muntahia Bittamleek – equipment	1,784,256	507,925
Ijarah Assets	182,226	213,875
Depreciation on Ijara Muntahia Bittamleek assets	(10,474,451)	(2,185,637)
	5,198,990	1,627,053

BANK NIZWA SAOG**Notes to the financial statements***for the year ended 31 December 2015***28 Profit from inter-bank Wakala investments**

	Jointly-financed	
	31	31
	December	December
	2015	2014
	RO	RO
Inter-bank Wakala local	4,523	33,624
Inter-bank Wakala foreign	301,329	864,817
	<u>305,852</u>	<u>898,441</u>

29 Profit from financial assets at fair value through equity

	Jointly-financed	
	31	31
	December	December
	2015	2014
	RO	RO
Gains on sale of Sukuk	7,539	472,137
Sukuk profit	51,168	589,832
Profit on funds investment	136,470	-
	<u>195,177</u>	<u>1,061,969</u>

30 Return on unrestricted investment accountholders before the Bank's share as a Mudarib

	Jointly-financed	
	31	31
	December	December
	2015	2014
	RO	RO
Saving accounts	239,848	131,807
Investment accounts	314,032	91,229
Investment risk reserve	28,217	10,764
Profit equalization reserve	601,195	121,824
	<u>1,183,292</u>	<u>355,624</u>

31 Bank's income from its own investments and financing

Rental income from investment in real estate	1,134,000	1,134,000
Profit from financial assets at fair value through equity	42,238	67,980
Profit from financial assets at amortized cost	360,694	350,002
Sales receivables revenue	41,407	26,932
Ijara Muntahia Bittamleek revenue - net of depreciation	106,943	41,971
Others	-	(751)
	<u>1,685,282</u>	<u>1,620,134</u>

32 Revenue from banking services

Commissions income	538,963	131,570
Processing fees	506,514	192,075
Service charges	331,715	423,439
	<u>1,377,192</u>	<u>747,084</u>

BANK NIZWA SAOG**Notes to the financial statements**
*for the year ended 31 December 2015***33 Operating expenses**

	31 December 2015 RO	31 December 2014 RO
Staff cost	9,285,636	8,864,749
Rent expense	857,229	766,589
Advertisement	625,037	776,692
Operational leasing	291,401	381,421
Maintenance expense	536,442	357,766
Security and cleaning	250,522	229,360
Professional and consulting charges	159,471	228,504
Boards expenses	101,023	117,075
Government fee	147,721	146,997
Printing and stationery	46,671	134,580
Telephone, electricity and water	447,142	435,947
Traveling expense	53,124	47,841
Subscription expense	82,065	86,091
Cards expense	464,389	254,408
Others	448,092	416,995
	<u>13,795,965</u>	<u>13,245,015</u>

34 Income tax**34.1 Recognised in the statement of income**

<i>Deferred income tax</i>	<u>(208,151)</u>	<u>(1,036,707)</u>
	<u>(208,151)</u>	<u>(1,036,707)</u>

The Bank is subject to income tax at the rate of 12% of taxable profits in excess of RO 30,000 calculated on the basis of International Financial Reporting Standard ("IFRS") accounting. The tax losses are available to carry forward for a period of 5 years and will be utilized against the future taxable profits. With effect from 1 January 2016, in addition to other changes the Bank will be subject to income tax at a rate of 15% (2015: 12%).

34.2 Reconciliation

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	31 December 2015 RO	31 December 2014 RO
Loss as per financial statements	(5,468,393)	(8,745,468)
Tax asset at the rate mentioned above	(656,207)	(1,049,457)
Non-deductible expenses and other permanent differences	75,530	18,791
Tax exempt revenues	-	(6,041)
Deferred tax not recognized	372,526	-
Total	<u>(208,151)</u>	<u>(1,036,707)</u>

BANK NIZWA SAOG**Notes to the financial statements**
for the year ended 31 December 2015**34 Income tax (continued)****34.3 Net deferred tax asset routed through statement of income are attributable to the following items:**

Deferred tax asset are attributable to the following items:

	As at 1 Jan 2015 RO	Recognized in income RO	Unrecognized in income RO	As at 31 Dec 2015 RO
Property, plant and equipment	(263,380)	(135,392)	135,487	(263,285)
General provision	179,247	(127,913)	189,211	240,545
Other provision	5,990	-	-	5,990
Losses carried forward	2,807,234	471,456	47,828	3,326,518
Net deferred tax asset	2,729,091	208,151	372,526	3,309,768

	As at 1 Jan 2014	Recognized in income	Unrecognized in income	As at 31 Dec 2014
Property, plant and equipment	(230,418)	(32,962)	-	(263,380)
General provision	51,567	127,680	-	179,247
Other provision	-	5,990	-	5,990
Losses carried forward	1,871,235	935,999	-	2,807,234
Net deferred tax asset	1,692,384	1,036,707	-	2,729,091

Deferred tax asset and liabilities recognized as at the reporting date are in the amount of RO 2,937,242.

Deferred tax asset and liabilities routed through owners' equity are attributable to the following items:

	As at 1 Jan 2015 RO	Recognized in equity RO	As at 31 Dec 2015 RO
Change in fair value	5,215	(5,215)	-
Net deferred tax assets	5,215	(5,215)	-

35 Net assets per share

Net assets per share is calculated by dividing the net assets at the year-end by number of shares outstanding at the end of reporting period

	2015 RO	2014 RO
Net assets (RO)	126,673,990	132,043,262
Number of shares outstanding	1,500,000,000	1,500,000,000
Net assets per share	0.084	0.088

36 Loss per share basic and diluted

The calculation of basic and diluted loss per share is based on the loss for the year attributable to ordinary shareholders is as follows:

Loss for the year (RO)	(5,260,242)	(7,708,761)
Weighted average number of shares outstanding during the year	1,500,000,000	1,500,000,000
Loss per share basic and diluted (RO)	(0.004)	(0.005)

Loss per share basic and diluted has been derived by dividing loss for the year attributable to the shareholders' by weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted loss per share is same as the basic loss per share.

BANK NIZWA SAOG

Notes to the financial statements for the year ended 31 December 2015

37 Segment reporting

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

Retail banking offers various products and facilities to individual customers to meet everyday banking needs.

Corporate banking delivers a variety of products and services to corporate and SMEs customers that includes financing, accepting deposits, trade finance and foreign exchange.

Treasury and investment banking provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk, in addition to asset management corporate advisory and investment products high net worth individuals and institutional clients.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a overall basis and are not allocated to operating segments.

Segment information is as follows:

31 December 2015	Retail banking	Corporate banking	Treasury & investment	Others	Total
	RO	RO	RO	RO	RO
Total revenue (joint)	6,045,222	3,517,094	501,129	-	10,063,445
Return on unrestricted investment accountholders	(896,195)	-	-	-	(896,195)
Profit paid on Wakala Bank's share in income from investment as a Mudarib and Rabul Maal	-	(362,813)	(53,781)	-	(416,594)
Bank's income from its own investments and financing	148,351	-	1,536,931	-	1,685,282
Other operating income	365,641	927,087	184,298	-	1,477,026
Total Revenue	5,663,019	4,081,368	2,168,577	-	11,912,964
Staff cost	6,255,415	1,627,657	1,402,564	-	9,285,636
Other operating expense	3,299,904	567,974	642,451	-	4,510,329
Depreciation & Amortization	1,058,130	244,634	278,091	-	1,580,855
General and specific provision	1,070,784	1,028,078	(94,325)	-	2,004,537
Total expense	11,684,233	3,468,343	2,228,781	-	17,381,357
Net (loss)/profit before tax	(6,021,214)	613,025	(60,204)	-	(5,468,393)
Income tax	-	-	-	208,151	208,151
Net (loss)/profit after tax	(6,021,214)	613,025	(60,204)	208,151	(5,260,242)
Total Assets	165,881,820	103,104,583	66,752,643	10,355,056	346,094,102
Total Liabilities & Equity of investment accountholders	125,908,119	63,479,030	16,940,000	13,092,963	219,420,112

BANK NIZWA SAOG**Notes to the financial statements**
*for the year ended 31 December 2015***37 Segment reporting (continued)**

31 December 2014	Retail banking RO	Corporate banking RO	Treasury & investment RO	Others RO	Total RO
Total revenue (joint)	2,487,721	1,088,801	1,960,560	-	5,537,082
Return on unrestricted investment accountholders	(243,609)	-	-	-	(243,609)
Profit paid on Wakala	-	(6,771)	(175,958)	-	(182,729)
Bank's share in income from investment as a Mudarib and Rabul Maal	2,244,112	1,082,030	1,784,602	-	5,110,744
Bank's income from its own investments and financing	68,904	-	1,551,230	-	1,620,134
Other operating income	175,922	550,870	60,049	-	786,841
Total Revenue	2,488,938	1,632,900	3,395,881	-	7,517,719
Staff cost	5,966,624	1,432,287	1,465,838	-	8,864,749
Other operating expense	3,150,388	584,953	644,925	-	4,380,266
Depreciation & Amortization	943,992	272,727	307,728	-	1,524,447
General provision	925,580	473,820	94,325	-	1,493,725
Total expense	10,986,584	2,763,787	2,512,816	-	16,263,187
Net (loss)/profit before tax	(8,497,646)	(1,130,887)	883,065	-	(8,745,468)
Income tax	-	-	-	1,036,707	1,036,707
Net (loss)/profit after tax	(8,497,646)	(1,130,887)	883,065	1,036,707	(7,708,761)
Total Assets	81,066,143	54,449,598	107,345,608	10,244,582	253,105,931
Total Liabilities & Equity of investment accountholders	79,266,527	14,590,384	16,901,500	10,304,258	121,062,669

BANK NIZWA SAOG**Notes to the financial statements**
for the year ended 31 December 2015**38 Financial instruments**

(a) Fair values of financial instruments

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying value and fair value estimates. As at the reporting date the fair values of the Bank's financial instruments are not significantly different from their carrying values.

(b) Fair values of financial instruments valuation hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. This fair value disclosure is divided into three levels as follows:

Level 1 portfolio

Level 1 assets and liabilities are typically exchange -traded positions and some government bonds traded in active markets. These positions are valued using unadjusted quoted prices in active markets.

Level 2 portfolio

Fair value is determined using valuation techniques based on valuation models with directly or indirectly market observable inputs. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as level 2.

Level 3 portfolio

Level 3 assets are valued using techniques similar to those outlined for level 2, except that if the instrument has one or more inputs that are unobservable and significant to the fair value measurement of the instrument in its entirety, it will be classified as level 3.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Transfer between Level 1 and 2

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy of investment securities during the year.

	Level 1 RO	Level 2 RO	Level 3 RO	Total RO
Financial assets at fair value through equity	12,653,911	5,358,039	-	18,011,950
Investment in real estate	-	14,175,000	-	14,175,000
Total financial assets at 31 December 2015	12,653,911	19,533,039	-	32,186,950

	Level 1 RO	Level 2 RO	Level 3 RO	Total RO
Financial assets at fair value through equity	2,129,720	309,787	-	2,439,507
Investment in real estate	-	14,175,000	-	14,175,000
Total financial assets at 31 December 2014	2,129,720	14,484,787	-	16,614,507

BANK NIZWA SAOG**Notes to the financial statements**
*for the year ended 31 December 2015***39 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 are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

No specific provisions has been established in respect of the financing given to related parties

31 December 2015	Principal shareholders RO	Sharia'a Board RO	Senior management RO	Total RO
Sales receivables & other receivables	843,734	22,992	151,870	1,018,596
Ijara Muntahia Bittamleek	4,286,523	-	519,785	4,806,308
Wakala Bil Istethmar	8,759,658	-	-	8,759,658
Customers' accounts	2,828,775	26,203	270,545	3,125,523
Unrestricted investment accountholders	1,059,804	32,030	172,254	1,264,088
31 December 2014	Principal shareholders RO	Sharia'a Board RO	Senior management RO	Total RO
Sales receivables	853,029	-	140,647	993,676
Ijara Muntahia Bittamleek	1,183,998	-	380,471	1,564,469
Wakala Bil Istethmar	10,000,000	-	-	10,000,000
Customers' accounts	2,626,682	12,147	189,534	2,828,363
Unrestricted investment accountholders	1,270,310	15,742	183,028	1,469,080

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

31 December 2015	Principal shareholders RO	Sharia Board RO	Senior management RO	Total RO
Profit account	622,194	576	16,260	639,030
Commission income	3	-	-	3
Operating expenses				
- Staff expense	-	-	1,095,639	1,095,639
- Other expenses	49,200	51,823	-	101,023
31 December 2014	Principal shareholders RO	Sharia Board RO	Senior management RO	Total RO
Profit account	97,482	-	12,706	110,188
Commission income	18	-	21	39
Operating expenses	50,000	67,075	1,118,152	1,235,227
- Staff expense	-	-	1,114,534	1,114,534
- Other expenses	50,000	67,075	3,618	120,693

BANK NIZWA SAOG

Notes to the financial statements *for the year ended 31 December 2015*

40 Financial risk management

The Bank's activities expose it to a variety of financial risks. The management's aim is to achieve an appropriate balance between risk and return, and minimize potential adverse effects on its financial performance. The Bank's risk management program is designed to set out the overarching philosophy, principles, requirements and responsibilities for a sound approach to risk oversight, management and on-going internal control assurance required within the Bank. All risk management policies and systems are regularly reviewed to reflect changes in markets, products and emerging best practice. Risk management is carried out by the Bank under policies approved by the Board of Directors. Risk policies explain the Bank's underlying approach to risk management, roles and responsibilities of the key players in risk management process as well as outlines tools and techniques for management of risks. The principal risks associated with the banking business are: credit risk, market risk, liquidity risk and operational risk.

The high-level risk framework mainly addresses the following:

- The oversight of board and senior management
- Overall policy approach of the Bank to establish risk appetite/tolerance, procedures and limits
- Identification, measurement, mitigation, controlling and reporting of risks
- Risk MIS at the bank wide level

The risk management processes have been effective throughout the year and members of Senior Management and Board of Directors have remained active and involved in maintaining risk profile of the Bank at acceptable level and adequate capital is held as per the regulatory requirements.

Credit risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Bank. Credit risk management, administration and control are carried out by risk management teams, which report to the Board Governance, Risk and Compliance Committee. The Bank has well defined credit structures under which credit committees, comprising of senior officers with requisite banking background, critically scrutinize and sanction financing up to the delegated authority. The Bank's exposure to credit is managed on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, counterparty limits, group exposure limits, and industry limits are monitored in light of changing counterparty and market conditions. All credit decisions are taken as per the Bank's credit risk policies and CBO regulations and are monitored accordingly. For purpose of capital charge, the Bank uses Basel II Standardized approach.

Types of Credit Risk

Credit risk arises mainly on sales receivables, Ijara Muntahia Bittamleek, Wakala Bil Istethmar, due from banks, investment in Sukuk and securities, investments in real-estate and interbank wakala.

Sales Receivable and Other Receivables

The Bank finances these transactions based on two structures:

- 1) Murabaha: In this structure, the Bank buys an asset which represents the object of the Murabaha and the Bank resells this asset to the customer (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the customer over the agreed period. The transactions are secured at all times by the object of the Murabaha (in case of real estate and auto finance) and other times by a total collateral package securing the facilities given to the client.
- 2) Istisna: This is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. (Istisna) stated net of deferred profits and provision for impairment.

Ijara Muntahia Bittamleek

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara Instalments are settled.

Wakala Investments

This is an investment in which the Bank, in its capacity as the "Muwakkil" (Principal) appoints the customer as "Wakeel" (Agent) to manage the invested fund amount in Sharia-compliant activities that may be entered into, as agreed, by the Wakeel on behalf of the Muwakkil. The investment amount is not guaranteed while the profit rate is anticipated and cannot be fixed. Therefore, the utmost care is taken before taking any exposure.

BANK NIZWA SAOG

Notes to the financial statements

for the year ended 31 December 2015

40 Financial risk management (continued)**Credit risk (continued)**

The analysis of credit portfolio is given below:

(a) Geographical concentrations

	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross financing	Investments in Sukuk & securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2015	RO	RO	RO	RO	RO	RO
Sultanate of Oman	712,268	281,968,735	14,421,978	188,641,221	2,695,000	80,915,991
Other GCC countries	9,188,592	2,406,250	8,197,539	-	14,245,000	1,158,054
Europe and North America	884,680	715,501	501,126	-	-	4,734,857
Africa and Asia	2,154,611	-	1,891,307	-	-	127,333
Total	12,940,151	285,090,486	25,011,950	188,641,221	16,940,000	86,936,235
	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2014	RO	RO	RO	RO	RO	RO
Sultanate of Oman	20,061,719	140,741,369	7,057,210	93,720,987	11,126,500	36,509,007
Other GCC countries	1,314,208	2,662,919	2,382,297	-	5,775,000	1,957,119
Europe and North America	31,341,088	2,472,268	-	-	-	-
Africa and Asia	6,016,652	-	-	-	-	12,757,280
Total	58,733,667	145,876,556	9,439,507	93,720,987	16,901,500	51,223,406

BANK NIZWA SAOG**Notes to the financial statements**
for the year ended 31 December 2015**40 Financial risk management ((continued))****Credit risk (continued)****(b) Customer concentrations**

	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross Financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
31 December 2015						
Personal	-	179,782,727	-	125,290,123	-	35,126
Corporate	12,940,151	105,307,759	15,025,537	51,876,110	16,940,000	84,750,483
Government	-	-	9,986,413	11,474,988	-	2,150,626
Total	12,940,151	285,090,486	25,011,950	188,641,221	16,940,000	86,936,235

	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross Financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
31 December 2014						
Personal	-	90,642,873	-	79,295,492	-	34,170
Corporate	58,733,667	55,233,683	7,366,997	14,425,495	16,901,500	51,189,236
Government	-	-	2,072,510	-	-	-
Total	58,733,667	145,876,556	9,439,507	93,720,987	16,901,500	51,223,406

(c) Economic sector concentrations

	Assets			Liabilities	
	Due from banks and interbank Wakala	Investments in Sukuk & securities	Gross financing	Current, unrestricted IAH and customer Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO
31 December 2015					
Personal	-	-	179,782,727	125,290,123	-
Construction	-	-	23,786,482	266,279	19,607,620
Manufacturing	-	-	715,501	6,492	17,325,000
Communication and utilities	-	-	-	-	-
Financial services	12,940,151	1,153,845	-	-	-
Government	-	9,986,413	-	11,474,988	5,000,000
Other services	-	-	3,985,265	450,225	9,739,998
Others	-	13,871,692	76,820,511	51,153,114	35,263,617
Total	12,940,151	25,011,950	285,090,486	188,641,221	86,936,235

BANK NIZWA SAOG**Notes to the financial statements**
for the year ended 31 December 2015**40 Financial risk management ((continued))****Credit risk (continued)****(c) Economic sector concentrations (continued)**

	Assets			Liabilities	
	Due from banks and interbank Wakala	Investments in Sukuk & securities	Gross financing	Current, unrestricted IAH and customer Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO
31 December 2014					
Personal	-	-	90,642,873	79,295,492	-
Construction	-	-	7,262,124	6,100,127	30,747,195
Manufacturing	-	-	2,472,268	117,338	17,825,002
Communication and utilities	-	-	-	137,209	-
Financial services	58,733,667	-	-	-	-
Government	-	2,072,510	-	-	-
Other services	-	-	2,662,917	599,704	2,248,125
Others	-	7,366,997	42,836,374	7,471,117	403,084
	<u>58,733,667</u>	<u>9,439,507</u>	<u>145,876,556</u>	<u>93,720,987</u>	<u>51,223,406</u>

(d) Gross credit exposure

	2015 RO	2014 RO
Gross financing	285,090,486	145,876,556
Investments in Sukuk & securities	25,011,950	9,439,507
Total	310,102,436	155,316,063

(e) Geographical distribution of exposures:

	Sultanate of Oman RO	Other countries RO	Total RO
31 December 2015			
Gross Sales receivables	88,687,651	715,501	89,403,152
Gross Ijarah Muntahia Bittamleek	155,253,276	2,406,250	157,659,526
Gross Wakala Bil Istethmar	38,027,808	-	38,027,808
Investments in Sukuk & securities	14,421,978	10,589,972	25,011,950
Due from banks and interbank Wakala	712,268	12,227,883	12,940,151
Total	297,102,981	25,939,606	323,042,587

BANK NIZWA SAOG**Notes to the financial statements**

for the year ended 31 December 2015

40 Financial risk management ((continued))**Credit risk (continued)****(e) Geographical distribution of exposures (continued)**

	Sultanate of Oman RO	Other countries RO	Total RO
31 December 2014			
Gross Sales receivables	58,188,334	2,472,268	60,660,602
Gross Ijarah Muntahia Bittamleek	64,703,037	2,662,917	67,365,954
Gross Wakala Bil Istethmar	17,850,000	-	17,850,000
Investments in Sukuk & securities	7,057,210	2,382,297	9,439,507
Due from banks and interbank Wakala	20,061,719	38,671,948	58,733,667
Total	167,860,300	46,189,430	214,049,730

(f) Industry type distribution of exposures by major types of credit exposures:

	Due from banks and interbank Wakala RO	Gross Sales receivables RO	Gross Ijarah Muntahia Bittamleek RO	Gross Wakala Bil Istethmar RO	Investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
31 December 2015							
Construction	-	1,516,864	6,769,618	15,500,000	-	23,786,482	19,607,620
Electricity, gas and water	-	3,313,116	1,544,536	6,168,150	-	11,025,802	7,829,198
Financial institutions	12,940,151	-	-	-	1,153,845	14,093,996	-
Services	-	258,614	3,726,651	-	-	3,985,265	9,739,998
Personal financing	-	78,847,303	100,935,424	-	-	179,782,727	-
Government	-	-	-	-	9,986,413	9,986,413	5,000,000
Non-resident financing	-	715,501	2,406,250	-	-	3,121,751	-
Others	-	4,751,754	42,277,047	16,359,658	13,871,692	77,260,151	44,759,419
	12,940,151	89,403,152	157,659,526	38,027,808	25,011,950	323,042,587	86,936,235
	Due from banks and interbank Wakala RO	Gross Sales receivables RO	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO	Gross Wakala Bil Istethmar RO	Investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
31 December 2014							
Construction	-	1,385,355	3,026,769	2,850,000	-	7,262,124	30,747,195
Electricity, gas and water	-	178,602	297,130	-	-	475,732	338,123
Financial institutions	58,733,667	-	-	-	57,210	58,790,877	-
Services	-	-	-	-	-	-	2,248,125
Personal financing	-	54,496,120	36,146,753	-	-	90,642,873	-
Government	-	-	-	-	2,072,510	2,072,510	-
Non-resident financing	-	2,472,268	2,662,917	-	-	5,135,185	-
Others	-	2,128,257	25,232,385	15,000,000	7,309,787	49,670,430	17,889,963
	58,733,667	60,660,602	67,365,954	17,850,000	9,439,507	214,049,730	51,223,406

BANK NIZWA SAOG

Notes to the financial statements
for the year ended 31 December 2015

40 Financial risk management ((continued))

Credit risk (continued)

(g) Residual contractual maturities of the portfolio by major types of credit exposures:

	Due from banks and interbank Wakala	Gross Sales receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO	RO
31 December 2015							
Upto 1 month	12,940,151	2,860,128	4,782,696	6,500,000	5,416,417	32,499,392	19,640,617
1 - 3 months	-	4,816,804	1,596,984	11,918,150	-	18,331,938	10,330,474
3 - 6 months	-	6,120,067	2,531,091	5,250,000	-	13,901,158	1,616,175
6 - 9 months	-	5,161,303	2,152,921	-	-	7,314,224	8,061,946
9 - 12 months	-	4,875,547	2,482,224	600,000	-	7,957,771	40,701,949
1 - 3 years	-	32,714,322	23,702,116	5,000,000	-	61,416,438	4,456,105
3 - 5 years	-	18,670,560	28,192,568	8,759,658	11,327,601	66,950,387	1,936,469
Over 5 years	-	14,184,421	92,218,926	-	8,267,932	114,671,279	192,500
	<u>12,940,151</u>	<u>89,403,152</u>	<u>157,659,526</u>	<u>38,027,808</u>	<u>25,011,950</u>	<u>323,042,587</u>	<u>86,936,235</u>
	Due from banks and interbank Wakala	Gross Sales receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO	RO
31 December 2014							
Upto 1 month	38,906,167	1,331,227	269,482	1,000,000	366,997	41,873,873	3,541,524
1 - 3 months	4,235,000	2,562,311	962,498	1,850,000	-	9,609,809	7,936,089
3 - 6 months	6,545,000	3,720,815	1,238,030	-	-	11,503,845	7,050,849
6 - 9 months	5,967,500	4,166,902	1,459,373	-	-	11,593,775	10,343,086
9 - 12 months	3,080,000	3,699,351	1,709,923	-	-	8,489,274	6,500
1 - 3 years	-	22,211,810	12,710,811	5,000,000	-	39,922,621	22,345,358
3 - 5 years	-	13,005,109	13,045,338	-	7,000,000	33,050,447	-
Over 5 years	-	9,963,077	35,970,499	10,000,000	2,072,510	58,006,086	-
	<u>58,733,667</u>	<u>60,660,602</u>	<u>67,365,954</u>	<u>17,850,000</u>	<u>9,439,507</u>	<u>214,049,730</u>	<u>51,223,406</u>

(h) Distribution of impaired financing, past due and not past due financing by type of industry:

	Performing financing	Non- performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
31 December 2015				
Personal financing	179,777,053	5,674	1,419	2,348,494
Non-resident corporate financing	3,121,751	-	-	31,122
Resident corporate financing	102,061,158	124,850	31,213	1,515,740
	<u>284,959,962</u>	<u>130,524</u>	<u>32,632</u>	<u>3,895,356</u>

BANK NIZWA SAOG**Notes to the financial statements**
for the year ended 31 December 2015**40 Financial risk management ((continued)****Credit risk (continued)****Distribution of impaired financing, past due and not past due financing by type of industry (continued)**

	Performing financing	Non- performing financing	Specific provisions held	General provisions held
31 December 2014	RO	RO	RO	RO
Personal financing	90,642,873	-	-	1,279,129
Non-resident corporate financing	5,135,185	-	-	50,482
Resident corporate financing	50,098,498	-	-	499,515
	<u>145,876,556</u>	<u>-</u>	<u>-</u>	<u>1,829,126</u>

(i) Distribution of impaired financing and past due financing by geographical distribution:

	Performing financing	Non- performing financing	Specific provisions held	General provisions held
31 December 2015	RO	RO		RO
Sultanate of Oman	281,838,211	130,524	32,632	3,864,234
Other countries	3,121,751	-	-	31,122
Total	<u>284,959,962</u>	<u>130,524</u>	<u>32,632</u>	<u>3,895,356</u>

	Performing financing	Non- performing financing	Specific provisions held	General provisions held
31 December 2014	RO	RO	RO	RO
Sultanate of Oman	140,741,371	-	-	1,778,643
Other countries	5,135,185	-	-	50,483
Total	<u>145,876,556</u>	<u>-</u>	<u>-</u>	<u>1,829,126</u>

BANK NIZWA SAOG**Notes to the financial statements**
*for the year ended 31 December 2015***40 Financial risk management** *((continued))***Credit risk** *(continued)***(j) Maximum exposure to credit risk without consideration of collateral held:**

	2015	2014
	RO	RO
Due from banks and interbank Wakala investments	12,940,151	58,733,667
Investment in Sukuk and securities	25,011,950	9,439,507
Gross Financing	285,090,486	145,876,556
	323,042,587	214,049,730
Off-balance sheet items		
Financial guarantee	19,181,545	11,042,630
Financial letter of credits	12,488,567	6,440,944
Acceptances	11,381,098	8,110,622
Bills for collection	189,174	360,797
Commitments	43,695,851	25,268,413
	86,936,235	51,223,406

Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

Bank's Liquidity Risk Management is governed by the Liquidity Risk Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Liquidity risk policy also incorporates contingency plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The Contingency Funding Plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily liquidated in sizeable amount etc. The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the limit set with respect to various time buckets as set out in Bank's Risk Appetite and Strategy Statement. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date. In addition to this, the Bank also monitors and report liquidity in line with Basel III ratios that includes Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR).

Treasury department of the Bank and Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds.

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table below represents cash flows receivable to and payable by the Bank under assets and liabilities by estimated remaining maturities at the balance sheet date.

BANK NIZWA SAOG

Notes to the financial statements

for the year ended 31 December 2015

40 Financial risk management (continued)

Liquidity risk (continued)

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO	More than 1 month to 6 months RO	More than 6 months to 12 months RO	More than 1 year to 5 years RO	Over 5 years RO	Total RO
31 December 2015						
Cash and balances with Central Bank of Oman	14,372,436	-	-	-	253,106	14,625,542
Inter-bank Wakala and Due from banks	12,940,151	-	-	-	-	12,940,151
Financing to customers	13,408,803	31,218,284	13,500,191	111,468,024	99,391,102	268,986,404
Financial assets at fair value through equity	5,416,417	-	-	4,327,601	8,267,932	18,011,950
Financial assets at amortized cost	-	-	-	7,000,000	-	7,000,000
Investment in real estate	-	14,175,000	-	-	-	14,175,000
Intangible asset	-	-	-	-	1,856,817	1,856,817
Property and equipment	-	-	-	-	3,938,500	3,938,500
Other assets	334,101	705,499	193,198	3,208,242	118,698	4,559,738
Total assets	46,471,908	46,098,783	13,693,389	126,003,867	113,826,155	346,094,102
Interbank Wakala	3,465,000	-	-	13,475,000	-	16,940,000
Customer accounts, Wakala and unrestricted accountholders	17,798,665	46,412,952	36,038,728	51,373,734	36,993,879	188,617,958
Other liabilities	4,300,841	-	1,871,317	6,920,805	-	13,092,963
Investment risk and profit equalization reserve	-	-	-	-	769,191	769,191
Owners' equity	-	-	-	-	126,673,990	126,673,990
Total liabilities, equity of unrestricted investment accountholders and owners' equity	25,564,506	46,412,952	37,910,045	71,769,539	164,437,060	346,094,102
Net gap	20,907,402	(314,169)	(24,216,656)	54,234,328	(50,610,905)	-
Cumulative net gap	20,907,402	20,593,233	(3,623,423)	50,610,905	-	-

BANK NIZWA SAOG**Notes to the financial statements**

for the year ended 31 December 2015

40 Financial risk management (continued)**Liquidity risk (continued)****Maturity profile of assets and liabilities (continued)**

	Due on demand and up to 30 days RO	More than 1month to 6 months RO	More than 6 months to 12 months RO	More than 1 year to 5 years RO	Over 5 years RO	Total RO
31 December 2014						
Cash and balances with Central Bank of Oman	24,895,762	-	-	-	195,997	25,091,759
Inter-bank Wakala and Due from banks	38,906,167	10,780,000	8,953,175	-	-	58,639,342
Financing to customers	2,369,401	9,223,161	9,801,426	60,981,899	53,139,854	135,515,741
Financial assets at fair value through equity	366,997	-	-	-	2,072,510	2,439,507
Financial assets at amortized cost	-	-	-	-	7,000,000	7,000,000
Investment in real estate	-	-	14,175,000	-	-	14,175,000
Intangible asset	-	-	-	-	1,910,394	1,910,394
Property and equipment	-	-	-	-	4,478,525	4,478,525
Other assets	411,276	249,724	371,769	2,734,306	88,588	3,855,663
Total assets	66,949,603	20,252,885	33,301,370	63,716,205	68,885,868	253,105,931
Interbank Wakala	12,666,500	4,235,000	-	-	-	16,901,500
Customer accounts and unrestricted accountholders	11,722,012	24,442,783	16,808,388	17,698,205	23,045,744	93,717,132
Other liabilities	10,289,480	14,778	-	-	-	10,304,258
Investment risk and profit equalization reserve	-	-	-	-	139,779	139,779
Owners' equity	-	-	-	-	132,043,262	132,043,262
Total liabilities, equity of unrestricted investment accountholders and owners' equity	34,677,992	28,692,561	16,808,388	17,698,205	155,228,785	253,105,931
Net gap	32,271,611	(8,439,676)	16,492,982	46,018,000	(86,342,917)	-
Cumulative net gap	32,271,611	23,831,935	40,324,917	86,342,917	-	-

Market risk

Market risk is the risk of loss due to unfavourable movements in market factors such as rates of return, exchange rates, commodities and equity prices. The Bank's Market risks arise generally due to open positions in foreign currencies, holding common equity, and fixed return products. All such instruments and transactions are exposed to general and specific market movements. For purpose of Capital Charge, the Bank uses Basel II standardized Approach.

The Bank seeks to mitigate market risk by employing strategies that correlate rate and price movements of its earning asset and liabilities. The Bank has Assets and Liability Committee (ALCO) which monitors Market

and Liquidity Risk on regular basis. The details of market risk faced by the bank are discussed in the following notes.

BANK NIZWA SAOG**Notes to the financial statements***for the year ended 31 December 2015***40 Financial risk management (continued)****Market risk (continued)****(a) Currency risk**

Currency risk is the risk of loss resulting from fluctuations in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealings.

The Bank undertakes currency risk mostly to support its trade finance services and cross-border FX exposures. It maintains overall foreign exchange risk position to the extent of statutory Net Open Position limit prescribed by CBO. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Omani Rial. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk. Foreign Exchange Risk exposures are managed as per Bank's Risk Management policies.

Exposure limits such as counterparty and currency limits are also in place in accordance with the Bank's approved policies to limit risk and concentration to the acceptable levels.

The foreign currency exposures are given below:

Foreign currency exposures

	2015	2014
	RO	RO
Net assets denominated in US Dollars	(2,273,507)	27,619,307
Net assets denominated in other foreign currencies	174,580	461,669

(b) Rate of Return Risk

Rate of Return Risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through advances and deposits portfolio.

The profit rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Committee (ALCO) that reviews the profit rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.

The sensitivity of the statement of income is the effect of the assumed changes in profit rates on the earning for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at reporting date.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant.

Impact on earnings due to profit rate risk in the banking book

	2015	2014
	RO	RO
+200 bps	593,000	1,800,075
+100 bps	297,000	900,037
-200 bps	(593,000)	(1,800,075)
-100 bps	(297,000)	(900,037)

BANK NIZWA SAOG
Notes to the financial statements
for the year ended 31 December 2015

40 Financial risk management (continued)

Market risk (continued)

Rate of Return Risk (continued)

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by risk policy guidelines and reduces risk by matching the repricing of assets and liabilities

	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-Profit bearing	Total
31 December 2015	RO	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	14,625,542	14,625,542
Inter-bank Wakala and Due from banks	9,625,000	-	-	-	-	3,315,151	12,940,151
Financing to customers	22,606,325	40,243,535	13,130,680	135,293,589	57,712,275	-	268,986,404
Financial assets at fair value through equity	-	-	-	4,327,601	8,267,932	5,416,417	18,011,950
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	14,175,000	-	-	-	-	14,175,000
Intangible asset	-	-	-	-	-	1,856,817	1,856,817
Property and equipment	-	-	-	-	-	3,938,500	3,938,500
Other assets	371,994	177,743	-	270,840	74,182	3,664,979	4,559,738
Total assets	32,603,319	54,596,278	13,130,680	146,892,030	66,054,389	32,817,406	346,094,102
Interbank Wakala	3,465,000	-	-	13,475,000	-	-	16,940,000
Customer accounts, Wakala & unrestricted accountholders	3,540,239	22,544,677	24,607,046	51,997,209	14,940,129	70,988,658	188,617,958
Other liabilities	-	-	-	-	-	13,092,963	13,092,963
Investment risk & profit equalization reserve	-	-	-	-	769,191	-	769,191
Shareholders' equity	-	-	-	-	-	126,673,990	126,673,990
Total liabilities and shareholders' equity	7,005,239	22,544,677	24,607,046	65,472,209	15,709,320	210,755,611	346,094,102
On-balance sheet gap	25,598,080	32,051,601	(11,476,366)	81,419,821	50,345,069	(177,938,205)	-
Cumulative Profit sensitivity gap	25,598,080	57,649,681	46,173,315	127,593,136	177,938,205	-	-

BANK NIZWA SAOG**Notes to the financial statements**
for the year ended 31 December 2015**40 Financial risk management (continued)****Market risk (continued)****Rate of Return Risk (continued)****Profit rate sensitivity gap (continued)**

	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-Profit bearing	Total
31 December 2014	RO	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	25,091,759	25,091,759
Inter-bank Wakala and Due from banks	35,977,500	10,780,000	8,953,175	-	-	2,928,667	58,639,342
Financing to customers	2,369,402	31,943,674	42,553,723	31,784,487	26,864,455	-	135,515,741
Financial assets at fair value through equity	-	-	-	-	2,072,510	366,997	2,439,507
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	-	14,175,000	-	-	-	14,175,000
Intangible asset	-	-	-	-	-	1,910,394	1,910,394
Property and equipment	-	-	-	-	-	4,478,525	4,478,525
Other assets	411,276	233,895	85,109	-	-	3,125,383	3,855,663
Total assets	38,758,178	42,957,569	65,767,007	38,784,487	28,936,965	37,901,725	253,105,931
Interbank Wakala	12,666,500	4,235,000	-	-	-	-	16,901,500
Customer accounts & unrestricted accountholders	1,888,966	7,960,052	8,630,625	17,698,206	8,849,103	48,690,180	93,717,132
Other liabilities	1,004	14,778	-	-	-	10,288,476	10,304,258
Investment risk & profit equalization reserve	-	-	-	-	139,779	-	139,779
Shareholders' equity	-	-	-	-	-	132,043,262	132,043,262
Total liabilities and shareholders' equity	14,556,470	12,209,830	8,630,625	17,698,206	8,988,882	191,021,918	253,105,931
On-balance sheet gap	24,201,708	30,747,739	57,136,382	21,086,281	19,948,083	(153,120,193)	-
Cumulative Profit sensitivity gap	24,201,708	54,949,447	112,085,829	133,172,110	153,120,193	-	-

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Notes to the financial statements

for the period ended 31 December 2015

40 Financial risk management (continued)

Market risk (continued)

Rate of Return Risk (continued)

(c) Equity risk

Bank is exposed to the volatility in the prices of the securities (i.e. Sukuk and Shares) held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity investments. Hence the exposure in listed and unlisted equity exposure as of date is taken in banking book and capital is calculated accordingly.

Since there is NIL exposure in trading book therefore no stress testing and sensitivity analysis is carried out.

Operational risk

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts.

The Bank has developed operational risk management policy and all the critical controls are implemented at all levels for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area.

For the purpose of measuring capital charge, the Bank has adopted the Basic Indicator Approach under Basel II for Operational Risk. The approach requires the Bank to provide 15% of the average three years gross annual income as capital charge for operational risk.

Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year.

The Bank's regulatory capital is divided into two tiers:

- a) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings; and
- b) Tier 2 capital: general provision and unrealized gains arising on the fair valuation of equity instruments at fair value through equity.

Book value of other intangible assets including software is deducted from Tier 1 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential future exposure.

The Bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

BANK NIZWA SAOG**Notes to the financial statements**
*for the year ended 31 December 2015***40 Financial risk management (continued)****Capital risk management (continued)****Capital adequacy**

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2015 and 2014 as follows:

Capital structure	2015 RO	2014 RO
TIER I CAPITAL		
Paid up capital	150,000,000	150,000,000
Share premium	2,091,192	2,091,192
Accumulated losses	(25,273,783)	(20,013,541)
Fair value gains or losses on financial assets at fair value through equity	(186,282)	(43,458)
Less: Intangible assets	(1,856,817)	(1,910,394)
Deferred tax asset	(2,937,242)	(2,729,091)
Total Tier I capital	121,837,068	127,394,708
TIER II CAPITAL		
Fair value gains on financial assets at fair value through equity	8,820	-
General provision	3,895,356	1,923,451
Total Tier II capital	3,904,176	1,923,451
Total eligible capital	125,741,244	129,318,159
Risk weighted assets		
Credit risk	328,423,344	234,393,927
Market risk	8,982,015	34,767,171
Operational risk	13,930,428	9,727,237
Total	351,335,787	278,888,335
Tier I capital	121,837,068	127,394,708
Tier II capital	3,904,176	1,923,451
Total regulatory capital	125,741,244	129,318,159
Tier I capital ratio	34.68%	45.68%
Total capital ratio	35.79%	46.37%
Common Equity Tier 1 (CET1)	121,837,068	127,394,708
Common Equity Tier 1 ratio	34.68%	45.68%

BANK NIZWA SAOG**Notes to the financial statements***for the year ended 31 December 2015***40 Financial risk management (continued)****Liquidity coverage ratio (LCR)**

Stock of High Quality Liquid Assets (HQLA)	Factor	Book Balance	Adjusted amount
Level 1 assets		RO	RO
Coins and bank notes	100%	4,057,807	4,057,807
Total Level 1 assets		4,057,807	4,057,807
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	9,254,907	7,866,671
Total Level 2A		9,254,907	7,866,671
Level 2B			
Qualifying corporate debt securities, rated between A+ and BBB-	50%	3,340,625	1,670,313
Qualifying common equity shares	50%	58,378	29,189
Total Level 2B (maximum 15% of HQLA)		3,399,003	1,699,502
Total level 2 assets (Maximum 40% of HQLA)		12,653,910	9,566,173
Total Stock of liquid assets		16,711,717	6,763,012
Cash outflows			
Less stable retail deposits	10%	112,856,093	11,285,609
Less stable deposits	10%	10,410,796	1,041,080
Non-financial corporates, sovereigns, central banks and PSE	40%	42,998,996	17,199,598
Currently undrawn portion of credit lines			
Other Legal entity customers, credit and liquidity facilities	100%	4,500,000	4,500,000
Other contingent funding liabilities (Letters of credit, guarantee)	5%	829,000	41,450
Total cash outflows		171,594,885	34,067,737
Cash inflows			
All other assets	100%	10,355,000	10,355,000
Amounts to be received from retail counterparties	50%	3,698,051	1,849,026
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	9,925,492	4,962,746
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	9,625,000	9,625,000
Operational deposits held at other financial institutions	0%	3,315,151	-
Total cash inflows		36,918,694	26,791,772
75% of outflows			25,550,803
Inflows restricted to 75% of outflows			25,550,803
Net cash outflows			8,516,934
LCR (%)			79.41

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41 Corresponding figures

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and for better presentation, the effect of which is not material.