BANK NIZWA SAOG
Statement of sources and uses of charity fund
for the year ended 31 December 2014

Sources of charity fund	2014	2013
	RO	RO
Balance as at 1 January 2014	994	-
Non-islamic income for the year/ period	4,071	994
Total source	5,065	994
Use of charity fund (Bank Muscat Charity Project Fund)	5,065	-
Undistributed charity fund	-	994

Notes to the financial statements from page 8 to 46 form an integral part of these financial statements.

Report of the Auditors – page 2.

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 ten 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 2014, the Bank had 282 employees (2013: 236 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.

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 (Murabaha)

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.

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.
Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

3.4 Wakala Bil Istethmar

An agreement whereby the Bank provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. These are stated at their amortized cost less any provision for doubtful amount.

3.5 Investments

Investment in Ijarah asset

Operating Ijarah of the Bank as lessee:
Ijarah installments are allocated over the financial periods of the lease term and recognized in the financial period in which these installments are due. Ijarah installments 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Investments *(continued)*

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”.

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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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:

	Years
Furniture & Fixtures	5
Equipment	7
Motor vehicle	7
Computer hardware	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.

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 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.

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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

3.18 Revenue recognition

Sales receivables (Murabaha)

Profit from sales transactions (Murabaha) 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.

Ijara Muntahia Bittamleek

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

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.

BANK NIZWA SAOG

Notes to the financial statements
for the year ended 31 December 2014

3 SIGNIFICANT ACCOUNTING POLICIES (*continued*)

3.18 Revenue recognition *(continued)*

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).

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 asses 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.

3 SIGNIFICANT ACCOUNTING POLICIES (*continued*)

3.22 Taxation (*continued*)

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 four prominent Sharia scholars appointed by the General Assembly of Shareholders.

- Sh. Mohammed Taqi Al-Uthmani — Chairman
- Dr. Abdul-Sattar Abu Ghuddah — Vice Chairman
- Sh. Ibrahim Al-Sawwafi — Member
- Sh. Dr. Mohammed Al-Gharbi — 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 2014

4 Cash and balances with Central Bank of Oman

	2014	2013
	RO	RO
Cash in hand	**2,743,049**	2,232,868
Balances with Central Bank of Oman	**22,152,713**	25,285,120
Capital deposit with Central Bank of Oman	**195,997**	150,000
	25,091,759	27,667,988

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	**61,719**	248,843
Foreign banks – foreign currency	**2,866,948**	1,603,135
	2,928,667	1,851,978

6 Inter-bank Wakala investments - net

	Jointly-financed	
Local banks – local currency	**20,000,000**	11,500,000
Foreign banks – foreign currency – less than one year	**16,940,000**	40,790,750
Foreign banks – foreign currency – more than one year	**18,865,000**	-
General provision	**(94,325)**	-
	55,710,675	52,290,750

BANK NIZWA SAOG

Notes to the financial statements
for the year ended 31 December 2014

7 Sales receivables - net

	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**
Gross sales receivables	**59,490,451**	**1,170,151**	**60,660,602**
Less:			
Deferred profit	**(8,416,265)**	**(115,424)**	**(8,531,689)**
General provision for doubtful receivables	**(955,870)**	**(21,096)**	**(976,966)**
Net sales receivables	**50,118,316**	**1,033,631**	**51,151,947**

	Jointly-financed	Self-financed	Total
	2013	2013	2013
	RO	RO	RO
Retail	14,240,138	505,888	14,746,026
Corporate	5,071,595	-	5,071,595
Gross sales receivables	19,311,733	505,888	19,817,621
Less:			
Deferred profit	(2,588,833)	(43,731)	(2,632,564)
General provision for doubtful receivables	(282,101)	(9,243)	(291,344)
Net sales receivables	16,440,799	452,914	16,893,713

The general provision movement against sales receivables is as follow:

	2014	2013
	RO	RO
Balance at 1 January	**291,344**	-
Provision during the year/ period	**685,622**	291,344
Balance at 31 December	**976,966**	291,344

BANK NIZWA SAOG

Notes to the financial statements
for the year ended 31 December 2014

8 Financial assets at fair value through equity

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

	Jointly-financed		Self-financed		Total	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
	2013	2013	2013	2013	2013	2013
	RO	RO	RO	RO	RO	RO
Regional listed sukuk	49,397,353	48,594,156	-	-	49,397,353	48,594,156
Local un-listed sukuk	-	-	4,000,000	4,015,600	4,000,000	4,015,600
Regional un-listed shares	35,976	35,976	-	-	35,976	35,976
Local listed shares	58,378	58,378	-	-	58,378	58,378
Total	49,491,707	48,688,510	4,000,000	4,015,600	53,491,707	52,704,110

9 Financial assets at amortized cost

	Self-financed	
	2014	2013
	RO	RO
Local listed sukuk	**7,000,000**	7,000,000
Total	**7,000,000**	7,000,000

10 Investment in Ijarah assets

	Jointly-financed	
	2014	2013
	RO	RO
Investment in Ijarah assets	**7,427,515**	-
General provision	**(74,275)**	**-**
Total	**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.

BANK NIZWA SAOG

Notes to the financial statements
for the year ended 31 December 2014

11 Investment in real estate

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 2014. Further, the Bank has a plan for disinvestment by end of September 2015.

12 Ijara Muntahia Bittamleek - Net

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

		2013	
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	10,245,777	844,717	11,090,494
Accumulated deprecation	(164,693)	(7,195)	(171,888)
Net book value	10,081,084	837,522	10,918,606
Equipment			
Cost	3,080,000	-	3,080,000
Accumulated deprecation	(160,417)	-	(160,417)
Net book value	2,919,583	-	2,919,583
Total			
Cost	13,325,777	844,717	14,170,494
Accumulated deprecation	(325,110)	(7,195)	(332,305)
Net book value	13,000,667	837,522	13,838,189
General provision	(130,007)	(8,375)	(138,382)
	12,870,660	829,147	13,699,807

Notes to the financial statements
for the year ended 31 December 2014

12 Ijara Muntahia Bittamleek – Net *(continued)*

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

	2014	2013
	RO	RO
Balance at 1 January 2014	**138,382**	-
Provision during the year/ period	**461,003**	138,382
Balance at 31 December 2014	**599,385**	138,382

13 Wakala Bil Istethmar - net

	2014	2013
	RO	RO
Wakala Bil Istethmar	**17,850,000**	-
General provision during the year	**(178,500)**	-
Wakala Bil Istethmar - net	**17,671,500**	-

14 Property and equipment - net

2014	**Furniture & fixture**	**Equipment**	**Motor vehicle**	**Computer hardware**	**Capital work in progress**	**Total**
	RO	**RO**	**RO**	**RO**	**RO**	**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	**3,915,943**	**693,837**	**86,350**	**1,575,004**	**264,708**	**6,535,842**
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	**(1,376,517)**	**(124,296)**	**(27,346)**	**(529,158)**	**-**	**(2,057,317)**
Carrying value at 31 December 2014	**2,539,426**	**569,541**	**59,004**	**1,045,846**	**264,708**	**4,478,525**

2013	Furniture & fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Total
	RO	RO	RO	RO	RO	RO
Additions	3,503,554	446,787	71,500	1,246,048	160,862	5,428,751
Depreciation	(730,831)	(38,000)	(16,525)	(248,744)	-	(1,034,100)
Carrying value at 31 December 2013	2,772,723	408,787	54,975	997,304	160,862	4,394,651

BANK NIZWA SAOG

Notes to the financial statements
for the year ended 31 December 2014

15 Intangible assets

	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	**1,845,025**	**65,369**	**1,910,394**

	Software	Capital work in progress	Total
	RO	RO	RO
Additions	2,305,496	381,447	2,686,943
Amortization	(385,672)	-	(385,672)
Carrying value at 31 December 2013	1,919,824	381,447	2,301,271

16 Other assets

	2014	2013
	RO	RO
Deferred tax asset (Note 33)	**2,734,306**	1,786,896
Profit receivable	**730,281**	627,043
Prepaid expense	**285,160**	475,185
Refundable deposits	**88,588**	88,488
Others	**17,328**	40,048
	3,855,663	3,017,660

17 Inter-bank Wakala

	2014	2013
	RO	RO
Local banks – foreign currency	**11,126,500**	24,216,500
Foreign banks – foreign currency	**5,775,000**	962,500
	16,901,500	25,179,000

18 Customer accounts

	2014	2013
	RO	RO
Current accounts	**48,525,291**	16,871,120
Margin accounts	**164,889**	23,376
	48,690,180	16,894,496

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Notes to the financial statement
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19 Other Liabilities

	2014	2013
	RO	RO
Payment orders	**6,237,985**	1,658,166
Creditors and accruals	**3,364,082**	1,918,941
Profit payable	**641,197**	24,187
Others	**60,994**	51,753
	10,304,258	3,653,047

20 Equity of unrestricted investment accountholders

	2014	2013
	RO	RO
Unrestricted investment accountholders	**42,280,807**	9,969,867
Investment fair value reserve	**(3,855)**	(18,573)
Profit equalization reserve	**126,690**	4,866
Investment risk reserve	**13,089**	2,325
	42,416,731	9,958,485

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.

20.1 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 2014 and 2013 as follows:

	2014 Percentage	2013 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		2014 average rate of return	2013 average rate of return
	RO	**USD**	**RO**	RO
Saving account	20% - 40%	15%	**0.28%**	0.30%
One month tenure	46% - 50%	23%-25%	**0.52%**	0.56%
Three months tenure	51% - 55%	25.5% - 27.5%	**0.61%**	0.62%
Six months tenure	61% - 68%	30.5% - 34%	**0.79%**	0.84%
Nine months tenure	66% - 73%	33% - 36.5%	**0.84%**	0.82%
One year tenure	71% - 78%	35.5% - 39%	**1.12%**	0.97%

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.

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Notes to the financial statements
for the year ended 31 December 2014

20 Equity of unrestricted investment accountholders (*continued*)

20.2 Equity of unrestricted investment accountholders details

Account type	2014	2013
	RO	RO
Saving account	**35,396,409**	9,317,707
Investment accounts:		
One month	**123,000**	29,000
Three months	**578,851**	160,660
Six months	**1,091,563**	143,000
Nine months	**59,500**	15,500
One year	**5,031,484**	304,000
	42,280,807	9,969,867

21 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 2014, no shareholders' of the Bank owned 10% or more of the Bank's paid up capital.

22 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.

23 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.

24 Contingent liabilities and commitments

a) Contingent liabilities

	2014	2013
	RO	RO
Letters of guarantee	**11,042,630**	10,700
Letters of credit	**6,440,944**	2,223,230
Acceptances	**8,110,622**	-
Bills for collection	**360,797**	43,905
Total contingent liabilities (a)	**25,954,993**	2,277,835

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Notes to the financial statements
for the year ended 31 December 2014

24 Contingent liabilities and commitments (*continued*)

a) Contingent liabilities (*continued*)

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

	2014	2013
	RO	RO
Construction	**13,756,876**	2,265,856
Manufacturing	**12,088,689**	-
Service	**44,468**	11,979
Others	**64,960**	
Total contingent liabilities (a)	**25,954,993**	2,277,835

b) Commitments

	2014	2013
	RO	RO
Unutilized limits	**25,268,413**	2,789,000
Capital and investments	-	298,091
Total commitments (b)	**25,268,413**	3,087,091

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Total contingent liabilities and commitments (a+b)	**51,223,406**	5,364,926

25 Sales receivables revenue

	Jointly-financed	
	31 December 2014	Period ended 15 August 2012 to 31 December 2013
	RO	RO
Retail	**1,551,426**	240,970
Corporate	**286,578**	116,170
	1,838,004	357,140

26 Ijara Muntahia Bittamleek revenue and Ijara assets

	Jointly-financed	
	31 December 2014	Period ended 15 August 2012 to 31 December 2013
	RO	RO
Ijara Muntahia Bittamleek – real estate	**3,090,890**	329,197
Ijara Muntahia Bittamleek – equipment	**507,925**	209,398
Ijarah Assets	**213,875**	-
Depreciation on Ijara Muntahia Bittamleek assets	**(2,185,637)**	(328,474)
	1,627,053	210,121

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Notes to the financial statements
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27 Profit from inter-bank Wakala investments

	Jointly-financed	
	31 December 2014	Period ended 15 August 2012 to 31 December 2013
	RO	RO
Inter-bank Wakala local	**33,624**	19,896
Inter-bank Wakala foreign	**864,817**	700,185
	898,441	720,081

28 Profit from financial assets at fair value through equity

Gains on sale of Sukuk	**472,137**	13,940
Sukuk profit	**589,832**	872,593
	1,061,969	886,533

29 Return on unrestricted investment accountholders before Bank's share as Mudarib

	31 December 2014	Period ended 15 August 2012 to 31 December 2013
	RO	RO
Saving accounts	**131,807**	36,136
Investment accounts	**91,229**	188
Investment risk reserve	**10,764**	2,325
Profit equalization reserve	**121,824**	4,866
	355,624	43,515

30 Bank's income from its own investments and financing

Rental income from investment in real estate	**1,134,000**	567,000
Profit from financial assets at fair value through equity	**67,980**	37,306
Profit from financial assets at amortized cost	**350,002**	53,923
Sales receivables revenue	**26,932**	2,654
Ijara Muntahia Bittamleek revenue	**41,971**	1,722
Others	**(751)**	-
	1,620,134	662,605

31 Revenue from banking services

Commissions Income	**305,034**	1,741
Processing Fees	**18,611**	45,350
Service charges	**423,439**	21,436
	747,084	68,527

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32 Operating expenses

	31 December 2014	Period ended 15 August 2012 to 31 December 2013
	RO	RO
Staff cost	**8,864,749**	7,756,739
Rent expense	**766,589**	804,675
Advertisement	**776,692**	670,156
Operational leasing	**381,421**	450,666
Maintenance expense	**357,766**	176,127
Security and cleaning	**229,360**	170,708
Professional and consulting charges	**228,504**	147,198
Boards expenses	**117,075**	132,867
Government fee	**146,997**	121,456
Printing and stationery	**134,580**	98,519
Telephone, electricity and water	**435,947**	61,402
Traveling expense	**47,841**	49,894
Subscription expense	**86,091**	44,095
Cards expense	**254,408**	16,505
Others	**416,995**	382,161
	13,245,015	11,083,168

33 Income tax

33.1 Recognised in the statement of income

Deferred income tax	**(1,036,707)**	(1,692,384)
	(1,036,707)	(1,692,384)

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.

33.2 Reconciliation

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

Loss as per financial statements	**(8,745,468)**	(13,997,164)
Tax asset at the rate mentioned above	**(1,049,457)**	(1,679,660)
Non-deductible expenses and other permanent differences	**18,791**	863
Tax exempt revenues	**(6,041)**	(13,587)
	(1,036,707)	(1,692,384)

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Notes to the financial statements
for the year ended 31 December 2014

33 Income tax *(continued)*

33.3 Net deferred tax asset routed through statement of income are attributable to the following items:

Recognised deferred tax asset are attributable to the following items:

	As at 1 Jan 2014	Recognised 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 routed through owners' equity are attributable to the following items:

	As at 1 Jan 2014	Recognised in equity	As at 31 Dec 2014
Change in fair value	**94,512**	**(89,297)**	**5,215**
Net deferred tax assets	**94,512**	**(89,297)**	**5,215**

34 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

	2014 RO	2013 RO
Net assets (RO)	**132,043,262**	139,111,900
Number of shares outstanding	**1,500,000,000**	1,500,000,000
Net assets per share	**0.088**	0.093

35 Loss per share basic and diluted

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

Loss for the year/ period (RO)	**(7,708,761)**	(12,304,780)
Weighted average number of shares outstanding during the year/ period	**1,500,000,000**	1,500,000,000
Loss per share basic and diluted (RO)	**(0.005)**	(0.008)

Loss per share basic and diluted has been derived by dividing loss for the period 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.

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36 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 2014	Retail banking	Corporate banking	Treasury & investment	Others	Total
	RO	RO	RO	RO	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	3,150,389	584,953	644,925	-	4,380,267
Depreciation & Amortization	943,992	272,727	307,728	-	1,524,447
General provision	925,579	473,820	94,325	-	1,493,724
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	89,201,964	11,675,495	16,091,500	4,093,710	121,062,669

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36 Segment reporting (*continued*)

31 December 2013	Retail banking	Corporate banking	Treasury & investment	Others	Total
	RO	RO	RO	RO	RO
Total revenue (joint)	402,075	165,152	1,606,648	-	2,173,875
Return on unrestricted investment accountholders	(24,132)	-	-	-	(24,132)
Profit paid on Wakala	-	-	(36,731)	-	(36,731)
Bank's share in income from investment as a Mudarib and Rabul Maal	377,943	165,152	1,569,917	-	2,113,012
Bank's income from its own investments and financing	4,376	-	658,229	-	662,605
Other operating income	20,754	47,774	12,476	-	81,004
Total Revenue	403,073	212,926	2,240,622	-	2,856,621
Staff cost	4,580,787	1,359,655	1,293,944	3,104,670	10,339,056
Other operating expense	1,976,570	532,957	597,368	1,558,336	4,665,231
Depreciation & Amortization	799,509	228,399	244,223	147,641	1,419,772
General provision	353,452	76,274	-	-	429,726
Total expense	7,710,318	2,197,285	2,135,535	4,810,647	16,853,785
Net (loss)/profit before tax	(7,307,245)	(1,984,359)	105,087	(4,810,647)	(13,997,164)
Income tax	-	-	-	1,692,384	1,692,384
Net (loss)/profit after tax	(7,307,245)	(1,984,359)	105,087	(3,118,263)	(12,304,780)
Total Assets	23,041,752	7,551,768	155,689,826	9,713,582	195,996,928
Total Liabilities & Equity of investment accountholders	25,642,542	2,407,906	25,179,000	3,655,580	56,885,028

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37 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	**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**

	Level 1 RO	Level 2 RO	Level 3 RO	Total RO
Financial assets at fair value through equity	48,652,534	4,051,576	-	52,704,110
Investment in real estate	-	14,175,000	-	14,175,000
Total financial assets at 31 December 2013	48,652,534	18,226,576	-	66,879,110

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38 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 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**

31 December 2013	Principal shareholders RO	Sharia'a Board RO	Senior management RO	Total RO
Sales receivables	1,100,956	-	115,484	1,216,440
Customers' accounts	486,157	985	167,533	654,675
Unrestricted investment accountholders				

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

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**

Period ended 15 August 2012 to 31 December 2013	Principal shareholders RO	Sharia Board RO	Senior management RO	Total RO
Profit account	8,016	-	2,140	10,156
Commission income	4,351	-	71	4,422
Operating expenses	80,000	70,717	1,622,798	1,773,515
- Staff expense	-	-	1,622,798	1,622,798
- Other expenses	80,000	70,717	-	150,717

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Notes to the financial statements
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39 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 Standardardrized 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
The Bank finances these transactions through buying 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.

Ijara Muntahia Bittamleek
This is a lease whereby the legal tittle 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, utmost care is taken before taking any exposure.

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39 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**	**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**

	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 2013	RO	RO	RO	RO	RO	RO
Sultanate of Oman	11,748,843	27,423,215	11,073,978	28,064,363	24,216,500	5,022,930
Other GCC countries	194,287	2,919,583	48,630,132	-	-	298,091
Europe and North America	40,269,314	3,313,012	-	-	962,500	40,649
Africa and Asia	1,930,284	-	-	-	-	3,256
Total	54,142,728	33,655,810	59,704,110	28,064,363	25,179,000	5,364,926

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Notes to the financial statements
for the year ended 31 December 2014

39 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**
31 December 2014	**RO**	**RO**	**RO**	**RO**	**RO**	**RO**
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**

	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 2013	RO	RO	RO	RO	RO	RO
Personal	-	25,664,632	-	25,667,544	-	-
Corporate	54,142,728	7,991,178	37,412,858	2,396,819	25,179,000	5,364,926
Government	-	-	22,291,252	-	-	-
Total	54,142,728	33,655,810	59,704,110	28,064,363	25,179,000	5,364,926

(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 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**
	58,733,667	**9,439,507**	**145,876,556**	**93,720,987**	**51,223,406**

BANK NIZWA SAOG

Notes to the financial statements
for the year ended 31 December 2014

39 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 2013					
Personal	-	-	25,664,632	25,667,544	-
Construction	-	-	-	32,937	5,054,856
Manufacturing	-	-	3,313,012	150,002	-
Communication and utilities	-	5,032,325	-	-	-
Financial services	54,142,728	21,364,933	-	10,900	-
Government	-	22,291,252	-	-	-
Other services	-	-	2,919,583	-	11,979
Others	-	11,015,600	1,758,583	2,202,980	298,091
	54,142,728	59,704,110	33,655,810	28,064,363	5,364,926

(d) Gross credit exposure

	2014	2013
	RO	RO
Gross financing	**145,876,556**	33,655,810
Investments in sukuk & securities	**9,439,507**	59,704,110
Total	**155,316,063**	93,359,920

(e) Geographical distribution of exposures:

	Sultanate of Oman	**Other countries**	**Total**
	RO	**RO**	**RO**
31 December 2014			
Sales receivables	**58,188,334**	**2,472,268**	**60,660,602**
Ijarah Muntahia Bittamleek	**64,703,037**	**2,662,917**	**67,365,954**
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**

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Notes to the financial statements
for the year ended 31 December 2014

39 Financial risk management (*(continued)*

Credit risk *(continued)*

(e) Geographical distribution of exposures *(continued)*

	Sultanate of Oman	Other countries	Total
	RO	RO	RO
31 December 2013			
Sales receivables	16,504,609	3,313,012	19,817,621
Ijarah Muntahia Bittamleek	10,918,606	2,919,583	13,838,189
Investments in sukuk & securities	11,073,978	48,630,132	59,704,110
Due from banks and interbank Wakala	11,748,843	42,393,885	54,142,728
Total	50,246,036	97,256,612	147,502,648

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

	Due from banks and interbank Wakala	**Sales receivables**	**Ijarah assets and Ijarah Muntahia Bittamleek**	**Wakala Bil Istethmar**	**Investment in sukuk & securities**	**Total**	**Off balance sheet exposures**
	RO	**RO**	**RO**	**RO**	**RO**	**RO**	**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**

	Due from banks and interbank Wakala	Sales receivables	Ijarah assets and Ijarah Muntahia Bittamleek	Investment in sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO
31 December 2013						
Construction	-	-	-	-	-	5,054,856
Electricity, gas and water	-	-	-	4,996,349	4,996,349	-
Financial institutions	54,142,728	-	-	21,306,555	75,449,283	-
Services	-	-	-	-	-	11,979
Personal financing	-	14,746,026	10,918,606	-	25,664,632	-
Government	-	-	-	22,291,252	22,291,252	-
Non-resident financing	-	3,313,012	2,919,583	-	6,232,595	-
Others	-	1,758,583	-	11,109,954	**12,868,537**	298,091
	54,142,728	**19,817,621**	**13,838,189**	**59,704,110**	**147,502,648**	**5,364,926**

BANK NIZWA SAOG

Notes to the financial statements

for the year ended 31 December 2014

39 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	Sales receivables	Ijarah assets and Ijarah Muntahia Bittamleek	Wakala Bil Istethmar	Investment in sukuk & securities	Total	Off balance sheet exposures
		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	-
	58,733,667	60,660,602	67,365,954	17,850,000	9,439,507	214,049,730	51,223,406

	Due from banks and interbank Wakala	Sales receivables	Ijarah assets and Ijarah Muntahia Bittamleek	Investment in sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO
31 December 2013						
Upto 1 month	44,325,728	289,084	41,769	94,355	44,750,936	3,087,091
1 - 3 months	-	647,369	152,915	-	800,284	11,979
3 - 6 months	-	936,806	194,267	1,220,354	2,351,427	2,265,856
6 - 9 months	-	1,262,943	194,836	-	1,457,779	-
9 - 12 months	-	1,460,114	197,769	-	1,657,883	-
1 - 3 years	9,817,000	8,905,441	1,618,514	8,429,319	28,770,274	-
3 – 5 years	-	3,860,881	1,665,345	38,197,312	43,723,538	-
Over 5 years	-	2,454,983	9,772,774	11,762,770	23,990,527	-
	54,142,728	19,817,621	13,838,189	59,704,110	147,502,648	5,364,926

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

	Performing financing	Non-performing financing	General provisions held
31 December 2014	**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	-	499,514
	145,876,556	-	1,829,125

BANK NIZWA SAOG

Notes to the financial statements
for the year ended 31 December 2014

39 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	General provisions held
31 December 2013	RO	RO	RO
Personal financing	25,664,632	-	353,452
Non-resident corporate financing	6,232,595	-	60,000
Resident corporate financing	1,758,583	-	16,274
	33,655,810	-	429,726

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

	Performing financing	**Non-performing financing**	**General provisions held**
31 December 2014	**RO**	**RO**	**RO**
Sultanate of Oman	**140,741,371**	**-**	**1,778,643**
Other countries	**5,135,185**	**-**	**50,482**
Total	**145,876,556**	**-**	**1,829,125**

	Performing financing	Non-performing financing	General provisions held
31 December 2013	RO	RO	RO
Sultanate of Oman	27,423,215	-	369,726
Other countries	6,232,595	-	60,000
Total	33,655,810	-	429,726

No specific provision recognised during the year.

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Notes to the financial statements
for the year ended 31 December 2014

39 Financial risk management (*(continued)*

Credit risk *(continued)*

(j) Maximum exposure to credit risk without consideration of collateral held:

	2014	2013
	RO	RO
Due from banks and interbank Wakala investments	**58,733,667**	54,142,728
Investment in Sukuk and securities	**9,439,507**	59,704,110
Financing	**145,876,556**	33,655,810
	214,049,730	147,502,648
Off-balance sheet items		
Financial guarantee	**11,042,630**	10,700
Financial letter of credits	**6,440,944**	2,223,229
Acceptances	**8,110,622**	-
Bills for collection	**360,797**	43,905
Commitments	**25,268,413**	3,087,092
	51,223,406	5,364,926

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.

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.

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Notes to the financial statements
for the year ended 31 December 2014

39 Financial risk management *(continued)*

Liquidity risk (*continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO	RO	RO	RO	RO	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

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Notes to the financial statements
for the year ended 31 December 2014

39 Financial risk management *(continued)*

Liquidity risk (*continued)*

Maturity profile of assets and liabilities (*continued)*

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO	RO	RO	RO	RO	RO
31 December 2013						
Cash and balances with Central Bank of Oman	27,517,988	-	-	-	150,000	27,667,988
Inter-bank Wakala and Due from banks	44,325,228	-	-	9,817,500	-	54,142,728
Financing to customers	264,108	1,551,261	2,686,789	14,563,916	11,527,446	30,593,520
Financial assets at fair value through equity	94,355	1,220,354	-	39,626,631	11,762,770	52,704,110
Financial assets at amortized cost	-	-	-	7,000,000	-	7,000,000
Investment in real estate	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	2,301,271	2,301,271
Property and equipment	-	-	-	-	4,394,651	4,394,651
Other assets	795,897	261,594	-	31,316	1,928,853	3,017,660
Total assets	72,997,576	3,033,209	2,686,789	71,039,363	46,239,991	195,996,928
Interbank Wakala	25,179,000	-	-	-	-	25,179,000
Customer accounts and unrestricted accountholders	3,860,332	8,272,466	4,529,568	4,658,854	6,724,570	28,045,790
Other liabilities	3,653,047	-	-	-	-	3,653,047
Investment risk and profit equalization reserve	-	-	-	-	7,191	7,191
Owners' equity	-	-	-	-	139,111,900	139,111,900
Total liabilities, equity of unrestricted investment accountholders and owners' equity	32,692,379	8,272,466	4,529,568	4,658,854	145,843,661	195,996,928

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 standardrized 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.

39 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

	2014	2013
	RO	RO
Net assets denominated in US Dollars	**27,619,307**	70,686,513
Net assets denominated in other foreign currencies	**461,669**	275,548

(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 Management Committee 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

	2014	2013
	RO	RO
+200 bps	**1,800,075**	2,096,900
+100 bps	**900,037**	1,048,450
-200 bps	**(1,800,075)**	(2,096,900)
-100 bps	**(900,037)**	(1,048,450)

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39 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 7 to 12months	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
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39 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 7 to 12months	Due within 1 to 5 years	Due after 5 years	Non-Profit bearing	Total
31 December 2013	RO	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	27,667,988	27,667,988
Inter-bank Wakala and Due from banks	42,473,250	-	-	9,817,500	-	1,851,978	54,142,728
Financing to customers	222,338	4,123,663	13,272,791	11,280,057	1,694,671	-	30,593,520
Financial assets at fair value through equity	-	1,220,354	-	39,626,631	11,762,770	94,355	52,704,110
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	-	-	-	14,175,000	-	14,175,000
Intangible asset	-	-	-	-	-	2,301,271	2,301,271
Property and equipment	-	-	-	-	-	4,394,651	4,394,651
Other assets	331,545	261,594	-	31,316	-	2,393,205	3,017,660
Total assets	43,027,133	5,605,611	13,272,791	67,755,504	27,632,441	38,703,448	195,996,928
Interbank Wakala	25,179,000	-	-	-	-	-	25,179,000
Customer accounts & unrestricted accountholders	485,885	2,345,431	1,154,885	4,657,854	2,504,706	16,897,029	28,045,790
Other liabilities	-	-	-	-	-	3,653,047	3,653,047
Investment risk & profit equalization reserve	-	-	-	-	-	7,191	7,191
Shareholders' equity	-	-	-	-	-	139,111,900	139,111,900
Total liabilities and shareholders' equity	25,664,885	2,345,431	1,154,885	4,657,854	2,504,706	159,669,167	195,996,928
On-balance sheet gap	17,362,248	3,260,180	12,117,906	63,097,650	25,127,735	(120,965,719)	-
Cumulative Profit sensitivity gap	17,362,248	20,622,428	32,740,334	95,837,984	120,965,719	-	-

39 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 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 2014

39 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 period ended 31 December 2014 and 2013 as follows:

Capital structure	2014 RO	2013 RO
TIER I CAPITAL		
Paid up capital	**150,000,000**	150,000,000
Share premium	**2,091,192**	2,091,192
Accumulated losses	**(20,013,541)**	(12,304,780)
Fair value gains losses on financial assets at fair value through equity	**(43,458)**	(806,654)
Less: Intangible assets	**(1,910,394)**	(2,301,270)
Deferred tax asset	**(2,729,091)**	(1,692,384)
Total Tier I capital	**127,394,708**	134,986,104
TIER II CAPITAL		
General provision	**1,923,451**	429,726
Total Tier II capital	**1,923,451**	429,726
Total eligible capital	**129,318,159**	135,415,830
Risk weighted assets		
Credit risk	**234,393,927**	94,326,525
Market risk	**34,767,171**	86,670,649
Operational risk	**9,727,237**	5,358,750
Total	**278,888,335**	186,355,924
Tier I capital	**127,394,708**	134,986,104
Tier II capital	**1,923,451**	429,726
Total regulatory capital	**129,318,159**	135,415,830
Tier I capital ratio	**45.68%**	72.43%
Total capital ratio	**46.37%**	72.67%
Common Equity Tier 1 (CET1)	**127,394,708**	134,986,104
Common Equity Tier 1 ratio	**45.68%**	72.43%

40 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. The Bank was established on 15 August 2012; accordingly corresponding figures for statement of income and statement of cash flows are for the period from 15 August 2012 to 31 December 2013.