1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Nizwa S.A.O.G "The Bank" was established in the Sultanate of Oman on 15 August 2012 under registration number (1152878) and was licensed by the Central Bank of Oman on 19 December 2012.

The Bank's principal activities include the provision of Sharia compliant alternatives to meet the financial needs of customers currently being met through the Bank's head office and its branches within the Sultanate.

The bank is listed on the Muscat Securities Market "MSM" and its principle place of business is in Muscat, Sultanate of Oman.

2. BASIS OF PREPARATION

A. Statement of compliance

The accompanying financial statements for the Bank have been prepared in accordance with the standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The standards issued by the International Accounting Standards Board and the interpretations released by the International Financial Reporting Interpretations Committee are applied in the absence of an Islamic standard and will be replaced later by the Islamic Standards when an applicable Islamic standard is issued.

B. Basis of measurement

The financial statements are prepared on historical cost basis, except for the financial assets at fair value through profit or loss and through unrestricted investment accountholders that have been measured at fair value.

C. Functional and presentation currency

The financial statements have been presented in Riyal Omani (RO) which is the functional currency of the Bank.

D. Use of Judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. These estimates and assumptions affect the amount of assets and liabilities and disclosure of contingent liabilities, as these estimates and interpretations affect revenues, expenses and allowances, as well as changes in fair value.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Nonetheless, the actual amount that is realized in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding

3. SIGNIFICANT ACCOUNTING POLICIES

Following are the significant accounting policies:

3.1 Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and balances with central bank and cash balances with banks and financial institutions that mature within three months, less banks and financial institutions accounts that mature within three months and restricted balances.

3.2 Earnings or expenditures prohibited by Sharia.

The Bank records these amounts in a separate account in the other payables and is not included in the Bank's revenues; these amounts are distributed to charities according to the Sharia Supervisory Board resolutions.

3.3 Murabaha contracts

Murabaha: is selling the commodity for a purchase price plus an agreed profit margin based on a percentage of the price or fixed amount and it is part of Amanah Boy'ou that depends on the price or cost.

Murabaha purchase orderer: is the transaction whereby the Bank sells a commodity according to the specifications requested by the buyer for a purchase price plus a certain profit margin (Murabaha-by-promise profit).

The Bank applies the commitment to the promise principle in Murabaha purchase orderers in accordance with the standards issued by Accounting and Auditing Organization for Islamic Financial Institutions.

Deferred sales profit (by which the buyer will pay the price of the commodity at a future date in a lump sum or instalments) is recorded when the transaction takes place and is allocated to the financial periods until the maturity date of the contract, regardless whether the payment is settled through cash or credit payments.

Deferred sales receivable are recognized when they occur by its nominal value, and are measured at the end of the financial period on the basis of monetary value expected to be recognized.

3.4 Investments

Investments comprise of financial assets at amortized cost, financial assets at fair value through unrestricted investment accountholders and financial assets at fair value through profit or loss.

All investments will be initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

3.4.1 Financial assets at amortized cost

Financial assets are measured at amortized cost only if these assets are held within a business model whose objective is to hold the asset to collect their contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and return on the outstanding principal amount.

Debt instruments are initially measured at amortized cost plus transaction costs. Subsequently they are amortized using the effective profit method. The losses arising from impairment are recognized in the statement of comprehensive income.

The amount of the impairment consists of the difference between the book value and present value of the expected future cash flows discounted at the original effective profit rate.

3.4.2 Financial assets at fair value through unrestricted investment accountholders

Financial assets at fair value through unrestricted investment accountholders are those purchased and funded by the unrestricted investment accountholders with the intent to be held for a long period of time.

Financial assets at fair value through unrestricted investment accountholders are measured at fair value plus the transaction cost and subsequently revaluated at fair value. Unrealized gains and losses are recognized directly in fair value reserve. When the investment is disposed of or impaired the gain or loss will be recorded in the statement of comprehensive income with the cumulative gain or loss previously recognized in unrestricted investment account.

The losses arising from impairment of such investments that are recorded in the statement of comprehensive income may be reserved only if the increase in the fair value occurred in a subsequent period of recording the impairment in the fair value reserve

The dividends from the financial assets are recorded in the statement of comprehensive income when the right to receive them is established.

Gains or losses resulting from foreign exchange rate changes are transferred to the fair value reserve.

Financial assets at fair value through unrestricted investment accountholders, which cannot be reliably measured at fair value, are recorded at cost. Impairment on such assets is recognized in the statement of comprehensive income.

3.4.3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss, are those purchased with the intent to resell in the near future to generate gains as a result of changes in market prices of such investments.

They are initially recognized at the fair value of consideration given (transaction costs are recorded in the statement of comprehensive income) and subsequently re-measured at fair value. All realised and unrealized gains or losses are transferred to the statement of comprehensive income including any gains or losses resulting from the translation of such assets held in foreign currencies to the functional currency.

Profit earned and dividends received are recorded in the statement of comprehensive income.

3.5 Leases and Ijara Muntahia Beltamleek

Leases are divided into:

Operating leases: Are leases which do not transfer the risks and benefits incidental to ownership of the leased item to the lessee.

Ijara Muntahia Beltamleek: Are leases which transfer to the lessee the entire risks and benefits incidental to ownership of the leased item according to the Financial Accounting Standard issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

Assets acquired to be leased are measured at cost which includes direct costs incurred for making the asset ready for use at the date of lease agreement. Leased assets are depreciated over the useful life used by the Bank.

The carrying values of leased assets 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 leased assets are written down to their recoverable amount, and the impairment is recorded in the statement of comprehensive income.

Revenues from lease agreement are allocated according to the financial periods included in the lease agreement.

Maintenance expenses incurred in relation to the leased assets are recognized when incurred.

3.6 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 amortised cost and any impairment in the value is recorded in the statement of comprehensive income

3.7 Fair value 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.

3.8 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. Land is not depreciated. Depreciation rates used are 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 comprehensive 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.

3.9 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 during that life, and amortization is recorded in the statement of comprehensive income. For intangible assets with indefinite useful life; Impairment in value is reviewed at the date of financial statements and any impairment in their value is recorded in the statement of comprehensive 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 date of financial statements; 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.

3.10 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 reliably measured

3.11 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.

3.12 Investment Risk Reserve

The amount appropriated by the bank out of profit share of the Unrestricted Investment Account Holders 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 should be determined and approved by the Sharia Supervisory Board of the Bank.

If losses occurred in some of the jointly financed operations that started and ended in the same year, they will be covered from the profits of the same year. If losses exceeded profits in the same year, they will be covered from the Investment Risk Reserve.

If losses occur from joint investment operations that were initiated and continued from preceding years, the losses should be covered from the Reserve.

3.13 Dividends

Amount that is distributed to Shareholders'. The amount of earnings distributed as dividends is usually determined by the Board of Directors and divided by the number of shares. Dividends exist in order to encourage investment in the company and to allow shareholders (who are really co-owners) to participate in the profits. A rapidly expanding company often pays little or nothing in dividends, as most of its earnings are reinvested in the bank.

3.14 Impairment of financial assets

An assessment will be made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset will be determined and any impairment loss, based on the assessment by the Bank of the estimated cash equivalent value, will be recognised in the statement of income. Specific provisions will be created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets will be written off only in circumstances where effectively all possible means of recovery have been exhausted.
Impairment will be determined as follows:

A. For assets carried at fair value, impairment will be the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
B. For assets carried at cost, impairment will be the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
C. For assets carried at amortised cost, impairment will be the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

3.14 Impairment of financial assets (Continued)

In the case of equity-type instruments at fair value through unrestricted investment accountholders, impairment is reflected directly as a write down of the financial asset. Impairment losses are not reversed through the statement of income while any subsequent increases in their fair value are recognised directly in unrestricted investment accountholders'.

3.15 Foreign currencies

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

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

3.16 Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported when there is a 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.

3.17 Revenue recognition

Revenues and expenses are recognized based on accrual basis except for revenue on non performing deferred sales and non performing facilities, on which revenue is transferred to the revenue in suspense account and not recognized in the consolidated statement of comprehensive income.

Commission income is recognized upon rendering the services. Dividend income is recognized when the right to receive payment is established.

3.18 Trade date accounting

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

4. CASH AND BALANCES WITH CENTRAL BANK

	2012
	RO
Cash in Hand	270,322
Balances with Central Bank of Oman	348,173
Capital Deposit with Central Bank of Oman	150,000
Total	**768,495**

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

5. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2012
	RO
Local Banks – Local Currency	105,788,290
Total	**105,788,290**

6. INTERNATIONAL WAKALA INVESTMENTS

	2012
	RO
Foreign Banks – Foreign Currency	37,129,400
Total	**37,129,400**

7. PROPERTY AND EQUIPMENT-NET

	Furniture & Fixtures	Equipment	Motor Vehicle	Computer Hardware	Capital Work in Progress	Total
At Cost:	RO	RO	RO	RO	RO	RO
Additions	1,822,375	155,885	71,500	306,474	1,385,688	3,741,922
Depreciation	(69,577)	(3,422)	(5,800)	(22,734)	-	(101,533)
Net Carrying Value at 31 December 2012	**1,752,798**	**152,463**	**65,700**	**283,740**	**1,385,688**	**3,640,389**

8. INTANGIBLE ASSETS

	Computer Software
	RO
At Cost:	
Additions	643,730
Amortization	(46,107)
Net Carrying Value at 31 December 2012	**597,622**

9. OTHER ASSETS

	2012
	RO
Profit Receivable	7,519
Prepaid expense	402,804
Refundable Deposit	30,617
Others	1,020
Total	**441,960**

10. OTHER LIABILITIES

	2012
	RO
Account Payable	132,056
Accrued Expense	585,569
Others	6,553
Total	**724,178**

11. UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

	2012
	RO
Saving Account – Retail Customers	210
Total	**210**

12. OTHER REVENUE

	2012
	RO
Government Grant	2,700,000
Total	**2,700,000**

13. PRE INCORPORATION EXPENSES

	2012
	RO
Professional & consulting charges	2,000,123
Staff costs	756,854
Founding committee expenses	262,700
Rent expense	236,186
Training	21,112
Others	171,887
Total	**3,448,862**
Government grant	(2,700,000)
Total	**748,862**

14. PRE-OPERATING EXPENSES

	2012
	RO
Professional & consulting charges	711,841
Staff cost	1,825,463
Founding committee expenses	125,000
Rent expense	233,246
Training	18,547
Telephone, Electricity & Water	112,109
Board expense	17,850
Others	128,201
Total	**3,172,257**

15. OPERATING EXPENSES

	2012
	RO
Staff cost	522,353
Rent expense	45,663
Telephone, Electricity & Water	34,383
Board expenses	6,000
Advertisement	92,207
Others	50,080
Total	**750,686**