

BANK NIZWA SAOG

Notes to the condensed interim financial information

31 March 2014 (Un-audited)

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 seven 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.

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

2 SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial information of the Bank is prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the condensed interim financial information are consistent with those used in the preparation of the annual financial statements for the period ended 31 December 2013.

The condensed interim financial information does not contain all information and disclosures required for full financial statements prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). In addition, results for the three months period ended 31 March 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

The condensed interim financial information has 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.

The condensed interim financial information has been prepared on historical cost basis, except for the measurement at fair value of certain investments carried at fair value.

Accounting estimates

The basis and the methods used for critical accounting estimates and judgments adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended 31 December 2013.

Financial risk management

The financial risk management objective and policies adopted by the Bank are consistent with those disclosed in the financial statements of the Bank for the year ended 31 December 2013.

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3 Cash and balances with Central Bank of Oman (CBO)

	31 March 2014	31 March 2013	31 December 2013
	RO	RO	RO
Cash in hand	2,148,403	957,896	2,232,868
Balances with Central Bank of Oman	19,641,710	82,753,984	25,285,120
Capital deposit with Central Bank of Oman	150,000	150,000	150,000
Total	<u>21,940,113</u>	<u>83,861,880</u>	<u>27,667,988</u>

3.1 The capital deposit with the Central Bank of Oman cannot be withdrawn without the prior approval of the Central Bank of Oman.

4 Due from banks and financial institutions

	31 March 2014	31 March 2013	31 December 2013
	RO	RO	RO
Local banks – local currency	477,632	870,104	248,843
Foreign banks – foreign currency	3,499,951	15,538,522	1,603,135
Total	<u>3,977,583</u>	<u>16,408,626</u>	<u>1,851,978</u>

5 Inter-bank Wakala investments - net

	31 March 2014	Jointly-financed 31 March 2013	December 2013
	RO	RO	RO
Local banks – local currency	23,000,000	-	11,500,000
Foreign banks – foreign currency	54,650,750	43,289,176	40,790,750
Islamic Wakala	9,817,500	-	-
General Provision	(49,088)	-	-
Total	<u>87,419,162</u>	<u>43,289,176</u>	<u>52,290,750</u>

6 Sales receivables - net

	Jointly- financed 31 March 2014	Self- financed 31 March 2014	Total 31 March 2014
	RO	RO	RO
Retail	21,987,109	728,340	22,715,449
Corporate	8,444,974	-	8,444,974
Gross sales receivables	<u>30,432,083</u>	<u>728,340</u>	<u>31,160,423</u>
Less:			
Deferred profit	3,908,364	68,382	3,976,746
General provision for doubtful receivables	444,452	13,199	457,651
Net sales receivables	<u>26,079,267</u>	<u>646,759</u>	<u>26,726,026</u>

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6 Sales receivables – net (continued)

	Jointly- financed 31 March 2013 RO	Self-financed 31 March 2013 RO	Total 31 March 2013 RO
Retail	1,133,729	-	1,133,729
Corporate	-		
Gross sales receivables	<u>1,133,729</u>	<u>-</u>	<u>1,133,729</u>
Less:			
Deferred profit	171,733	-	171,733
General provision for doubtful receivables	<u>19,119</u>		<u>19,119</u>
Net sales receivables	<u><u>942,877</u></u>	<u><u>-</u></u>	<u><u>942,877</u></u>
	Jointly- financed 31 December 2013 RO	Self- financed 31 December 2013 RO	Total 31 December 2013 RO
Retail	14,240,138	505,888	14,746,026
Corporate	5,071,595	-	5,071,595
Gross sales receivables	<u>19,311,733</u>	<u>505,888</u>	<u>19,817,621</u>
Less:			
Deferred profit	(2,588,833)	(43,731)	(2,632,564)
General provision for doubtful receivables	<u>(282,101)</u>	<u>(9,243)</u>	<u>(291,344)</u>
Net sales receivables	<u><u>16,440,799</u></u>	<u><u>452,914</u></u>	<u><u>16,893,713</u></u>

7 Financial assets at fair value through equity

	Jointly-financed		Self-financed		Total	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
	RO	RO	RO	RO	RO	RO
Regional listed sukuk	32,471,241	32,323,379	-	-	32,471,241	32,323,379
Regional un-listed shares	370,080	370,080	-	-	370,080	370,080
Local listed shares	58,378	64,216	-	-	58,378	64,216
31 March 2014	<u>32,899,699</u>	<u>32,757,675</u>	<u>-</u>	<u>-</u>	<u>32,899,699</u>	<u>32,757,675</u>
31 March 2013	<u>6,180,135</u>	<u>6,180,135</u>	<u>-</u>	<u>-</u>	<u>6,180,135</u>	<u>6,180,135</u>
31 December 2013	<u>49,491,707</u>	<u>48,688,510</u>	<u>4,000,000</u>	<u>4,015,600</u>	<u>53,491,707</u>	<u>52,704,110</u>

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8 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 March 2014.

9 Ijara Muntahia Bittamleek - net

	March 2014		
	Jointly- financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	18,010,774	1,514,366	19,525,140
Accumulated depreciation	(326,858)	(22,179)	(349,037)
Net book value	17,683,916	1,492,187	19,176,103
Equipment's			
Cost	3,080,000	-	3,080,000
Accumulated depreciation	(224,583)	-	(224,583)
Net book value	2,855,417	-	2,855,417
Total			
Cost	21,090,774	1,514,366	22,605,140
Accumulated depreciation	(551,441)	(22,179)	(573,620)
Net book value	20,539,333	1,492,187	22,031,520
General provision	(205,365)	(14,924)	(220,289)
Ijara Muntahia Bittamleek - net	20,333,968	1,477,263	21,811,231

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9 Ijara Muntahia Bittamleek – net (continued)

	March 2013		
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	264,000	-	264,000
Accumulated depreciation	(211)	-	(211)
Net book value	<u>263,789</u>	<u>-</u>	<u>263,789</u>
Equipment's			
Cost	1,540,000	-	1,540,000
Accumulated depreciation	-	-	-
Net book value	<u>1,540,000</u>	<u>-</u>	<u>1,540,000</u>
Total			
Cost	1,804,000	-	1,804,000
Accumulated depreciation	(211)	-	(211)
Net book value	<u>1,803,789</u>	<u>-</u>	<u>1,803,789</u>
General provision	(18,038)	-	(18,038)
Ijara Muntahia Bittamleek - net	<u>1,785,751</u>	<u>-</u>	<u>1,785,751</u>
	December 2013		
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	10,245,777	844,717	11,090,494
Accumulated depreciation	(164,693)	(7,195)	(171,888)
Net book value	<u>10,081,084</u>	<u>837,522</u>	<u>10,918,606</u>
Equipment's			
Cost	3,080,000	-	3,080,000
Accumulated depreciation	(160,417)	-	(160,417)
Net book value	<u>2,919,583</u>	<u>-</u>	<u>2,919,583</u>
Total			
Cost	13,325,777	844,717	14,170,494
Accumulated depreciation	(325,110)	(7,195)	(332,305)
Net book value	<u>13,000,667</u>	<u>837,522</u>	<u>13,838,189</u>
General provision	(130,007)	(8,375)	(138,382)
Ijara Muntahia Bittamleek - net	<u>12,870,660</u>	<u>829,147</u>	<u>13,699,807</u>

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10 Property and equipment - net

	Furniture & Fixture RO	Equipment RO	Motor Vehicle RO	Computer Hardware RO	Capital Work in Progress RO	Total RO
Balance at 1 January 2014	3,503,554	446,787	71,500	1,246,048	160,862	5,428,751
Additions	100,118	73,627	-	49,271	32,497	255,513
Balance at 31 March 2014	3,603,672	520,414	71,500	1,295,319	193,359	5,684,264
Accumulated Depreciation at 1 January 2014	(730,831)	(38,000)	(16,525)	(248,744)	-	(1,034,100)
Depreciation expense	(205,857)	(18,316)	(2,681)	(64,437)	-	(291,291)
Accumulated Depreciation at 1 March 2014	(936,688)	(56,316)	(19,206)	(313,181)	-	(1,325,391)
Carrying value at 31 March 2014	2,666,984	464,098	52,294	982,138	193,359	4,358,873
Carrying value at 31 March 2013	1,707,931	174,326	63,019	422,026	1,777,623	4,144,925
Carrying value at 31 December 2013	2,772,723	408,787	54,975	997,304	160,862	4,394,651

11 Intangible assets

Balance at 1 January 2014	2,301,271
Additions	27,913
Additions capital work in progress	20,312
Amortization for the period	(116,024)
Carrying value at 31 March 2014	2,233,472
Carrying value at 31 March 2013	583,737
Carrying value at 31 December 2013	2,301,271

11.1 Intangible assets represents amount spent for the Banking software.

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12 Equity of unrestricted investment accountholders

	31 March 2014	31 March 2013	31 December 2013
	RO	RO	RO
Unrestricted investment account holders	20,086,894	3,630,729	9,969,867
Investment fair value reserve	(7,131)	(5,677)	(18,573)
Profit equalization reserve	13,771	-	4,866
Investment risk reserve	3,280	72	2,325
Total	20,096,814	3,625,124	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.

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

14 Operating expenses

	<i>Three months ended</i>	<i>Period ended</i>
	31 March 2014	23 December 2012 to 31 March 2013
	RO	RO
Staff cost	2,147,312	2,241,344
Advertisement	228,293	189,142
Rent expense	216,024	203,121
Hardware & software maintenance	61,324	42,273
Premises expenses	52,566	32,327
Printing & Stationery	51,511	26,029
Professional and consulting charges	43,752	44,966
Government fees	40,604	35,722
Board of Directors & Sharia board expenses	29,395	51,946
Others	328,559	290,298
Total	3,199,940	3,157,168

BANK NIZWA SAOG**Notes to the condensed interim financial information***31 March 2014 (Un-audited)***15 Related party transactions**

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

	Principal shareholders	Sharia'a Board	Senior management	Total
31 March 2014	RO	RO	RO	RO
Sales receivables	1,142,057		109,906	1,251,963
Ijara Muntahia Bittamleek	870,413		397,919	1,268,332
Customers' accounts	1,238,280	510	240,050	1,478,840
Unrestricted investment accountholders	88,470		152,623	241,093
		Principal shareholders	Senior management	Total
31 March 2013		RO	RO	RO
Sales receivables		-	21,713	21,713
Customers' accounts		840,956	247,300	1,088,256
	Principal shareholders	Sharia'a Board	Senior management	Total
31 December 2013	RO	RO	RO	RO
Sales receivables	1,100,956	-	115,484	1,216,440
Customer accounts	486,157	985	167,533	654,675

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

3 months ended 31 March 2014	Principal shareholders	Sharia'a Board	Senior management	Total
	RO	RO	RO	RO
Profit income	15,542	-	1,014	16,556
Commission income	18	-	21	39
Staff cost	-	-	349,585	349,585
Other expenses	10,050	19,345	1,601	30,996
<i>Period ended 15 August 2012 to 31 March 2013</i>		Principal shareholders	Senior management	Total
		RO	RO	RO
Profit income		-	55	55
Commission income		-	8	8
Staff cost		-	373,195	373,195
Other expenses		43,200	26,596	69,796

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16 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 an overall basis and are not allocated to operating segments.

Segment information is as follows:

<i>3 months ended 31 March 2014</i>	Retail banking	Corporate banking	Treasury & investment	Others	Total
	RO	RO	RO	RO	RO
Operating income	360,612	303,460	977,330	-	1,641,402
Net (loss)/ profit	(2,256,286)	(327,475)	369,694	272,662	(1,990,493)
Total assets	33,325,039	14,270,000	167,269,533	11,376,991	226,241,563
Total Liabilities & unrestricted investment accountholders	40,625,740	2,510,889	39,996,500	5,429,665	88,562,794
<i>Period ended 15 August 2012 to 31 March 2013</i>	Retail banking	Corporate banking	Treasury & investment	Others	Total
	RO	RO	RO	RO	RO
Operating income	5,836	406	169,910	-	175,152
Net (loss)/ profit	(412,098)	(90,904)	79,538	(6,923,552)	(7,347,016)
Total assets	1,188,628	1,540,000	149,739,817	5,849,412	158,317,857
Total Liabilities & unrestricted investment accountholders	11,145,071	346,080	-	2,082,530	13,573,681

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17 Financial instruments

(a) Fair values of financial assets

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 assets 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, level 2 and level 3

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

	Level 1	Level 2	Level 3	Total
	RO	RO	RO	RO
Financial assets at fair value through equity	32,387,595	370,080	-	32,757,675
Investment in real estate	-	14,175,000	-	14,175,000
Total financial assets at 31 March 2014	32,387,595	14,545,080	-	46,932,675
Total financial assets at 31 March 2013	6,180,135	-	-	6,180,135
Total financial assets at 31 December 2013	48,652,534	18,226,576	-	66,879,110

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18 Maturity profile of assets and liabilities

	Due on demand and up to 30 days	More than 1 month 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 March 14						
Cash and balances with Central Bank of Oman	21,790,113	-	-	-	150,000	21,940,113
Inter-bank Wakala and Due from banks	69,769,333	11,859,000	-	9,768,412	-	91,396,745
Financing to customers	378,655	6,091,291	3,717,050	20,980,961	17,369,300	48,537,257
Financial assets at fair value through equity	434,296	1,205,017	-	21,356,947	9,761,415	32,757,675
Financial assets at amortized cost	-	-	-	7,000,000	-	7,000,000
Investment in real estate	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	2,233,472	2,233,472
Property and equipment	-	-	-	-	4,358,873	4,358,873
Other assets	305,124	453,953	1,002,137	87,093	1,994,121	3,842,428
Total assets	92,677,521	19,609,261	4,719,187	59,193,413	50,042,181	226,241,563
Interbank Wakala	34,029,000	5,967,500	-	-	-	39,996,500
Customer accounts & unrestricted accountholders	6,461,373	10,053,615	8,019,518	8,754,953	9,830,119	43,119,578
Other liabilities	5,429,665	-	-	-	-	5,429,665
Investment risk & profit equalization reserve	-	-	-	-	17,051	17,051
Owners' equity	-	-	-	-	137,678,769	137,678,769
Total liabilities, equity of unrestricted investment accountholders and owners' equity	45,920,038	16,021,115	8,019,518	8,754,953	147,525,939	226,241,563

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18 Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days	More than 1 month 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 & 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 & 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

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19 Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II, for the period ended 31 March 2014 as follows:

Capital structure	31 March 2014 RO
TIER I CAPITAL	
Paid up capital	150,000,000
Share premium	2,091,192
Accumulated losses	(14,295,273)
Fair value gains (losses) on financial assets at fair value through equity	(206,300)
Less: Intangible Assets	(2,233,472)
Deferred Tax Asset	(1,965,046)
Total Tier I capital	133,391,101
TIER II CAPITAL	
General provision	727,028
Total Tier II capital	727,028
Total eligible capital	134,118,129
Risk weighted assets	
Credit risk	124,708,925
Market risk	74,343,769
Operational risk	8,836,875
Total	207,889,569
Tier I capital	133,391,101
Tier II capital	727,028
Total regulatory capital	134,118,129
Tier I capital ratio	64.16%
Total capital ratio	64.51%
Common Equity Tier 1 (CET1)	133,391,101
Common Equity Tier 1 ratio	64.16%
31 December 2013	
Total eligible capital	135,415,830
Tier I capital ratio	72.43%
Total capital ratio	72.67%
Common Equity Tier 1 (CET1)	134,986,104
Common Equity Tier 1 ratio	72.43%

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20 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 condensed income statement and condensed statement of cash flows are for the period from 15 August 2012 to 31 March 2013.