

## **BANK NIZWA SAOG**

### **Notes to the condensed interim financial information**

*for the period from 15 August 2012 to 30 September 2013 (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 three 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 taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, 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 Shari'a Supervisory Board 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 BASIS OF PREPARATION**

##### **2.1 Statement of compliance**

The condensed interim financial information has been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and other applicable regulations of 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. Accordingly, the condensed interim financial information has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 - 'Interim Financial Reporting'. The condensed interim financial information does not include all of the information and disclosure as required in annual financial statements.

##### **2.2 Basis of measurement**

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

##### **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 condensed interim 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

## **BANK NIZWA SAOG**

### **Notes to the condensed interim financial information**

*for the period from 15 August 2012 to 30 September 2013(Un-audited)*

#### **2 BASIS OF PREPARATION (continued)**

##### **2.5 Comparative figures**

The Bank was incorporated on 15 August 2012, accordingly no comparative figures exist to be provided for comparative purposes in these financial statements.

#### **3 SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the condensed interim financial information are set out below.

##### **3.1 Share capital and share premium**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Share premium account includes any premium received on the initial issuing of the share capital. The proceeds received from initial issuing of the share capital are allocated between share capital and share premium.

##### **3.2 Cash and cash equivalents**

For the purposes of the statement of cash flow cash and cash equivalents comprise cash in hand, balance with the Central Bank of Oman, amounts due from banks and financial institutions, maturing within three months from the reporting date. Cash and cash equivalents are carried at cost at the reporting date.

##### **3.3 Deferred sales (Murabaha) receivables**

Sales receivables consist mainly of sales transaction agreements (murabaha) and commodity agreements stated net of deferred profits and provision for impairment. The Bank considers the promise made in the murabaha to the purchase orderer as obligatory.

##### **3.4 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 useful life used by the Bank.

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

##### **3.5 Investments**

###### ***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 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 income statement.

## **BANK NIZWA SAOG**

### **Notes to the condensed interim financial information**

*for the period from 15 August 2012 to 30 September 2013(Un-audited)*

#### **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 portion related to owners' equity and equity of investment account holders. 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 account holders, 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 income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the income statement 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 income statement.

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 income statement for the current financial period, taking into consideration the split between the portion related to owners' equity and the portion related to investment account holders."

##### **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 amortized cost and any impairment in the value are recorded in income statement.

##### **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:

	<b>Years</b>
Furniture & Fixtures	5
Equipment	7
Motor Vehicle	7
Computer hardware	5

**BANK NIZWA SAOG****Notes to the condensed interim financial information**

*for the period from 15 August 2012 to 30 September 2013(Un-audited)*

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****3.8 Property and equipment (continued)**

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 income statement. 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 income statement.

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.

**3.10 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 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 categorized as Standard and Special Mention. However, for personal finance a minimum general loss provision of 2% of the Standard and Special Mention is required to address the heightened inherent risk.

**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**

Investment risk reserve is 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 are determined and approved by the Sharia Supervisory Board of the Bank.

**3.13 Variable reserve**

Variable reserve, after deducting the Bank's share as investment manager (Mudarib) and as Rub Mal (fund provider), is utilized to maintain suitable and competitive return to investors in case of certain un-anticipated extraordinary circumstances depressing the return.

## **BANK NIZWA SAOG**

### **Notes to the condensed interim financial information**

*for the period from 15 August 2012 to 30 September 2013(Un-audited)*

#### **3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **3.14 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 income statement.

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

##### **3.15 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.

##### **3.16 Revenue recognition**

###### ***Deferred Sales (Murabaha) receivables***

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 and is stated net of depreciation.

###### ***Bank's shareas Mudarib of income from equity of unrestricted investment accountholders***

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

###### ***Fee and commission***

Fees and commission income is recognised upon rendering the services.

###### ***Dividends***

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

###### ***Income from investments***

Income from investments is recognised when earned.

###### ***Rental income from investment in real estate***

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

##### **3.17 Return on equity of unrestricted investment account holders**

Investors' share of income is calculated based on income generated from joint investment accounts after deducting the Bank's share as Mudarib and 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.

**BANK NIZWA SAOG****Notes to the condensed interim financial information**

*for the period from 15 August 2012 to 30 September 2013(Un-audited)*

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)****3.18 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 income statement as incurred. In addition, obligation for contribution against end of service benefit, for Omani employees is recognized as expense in income statement.

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.

**3.19 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 income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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.

**3.20 Earnings prohibited by Shari'a**

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund and the Bank uses these funds according to the Shari'a Supervisory Board resolutions.

**3.21 Zakah**

The responsibility of payment of Zakah is on individual shareholders and investment accountholders.

**3.22 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 condensed interim financial information***for the period from 15 August 2012 to 30 September 2013 (Un-audited)*

<b>4</b>	<b>Cash and balances with Central Bank of Oman (CBO)</b>	<b>September 2013 RO</b>
	Cash in hand	1,161,942
	Balances with Central Bank of Oman	11,023,212
	Capital deposit with Central Bank of Oman	<u>150,000</u>
		<u>12,335,154</u>
<b>4.1</b>	The capital deposits with the Central Bank of Oman cannot be withdrawn without the prior approval of the Central Bank of Oman.	
<b>5</b>	<b>Due from banks and financial institutions</b>	<b>September 2013 RO</b>
	Local banks	1,158,711
	Foreign banks	<u>1,185,226</u>
		<u>2,343,937</u>
<b>6</b>	<b>Inter-bank wakala investments</b>	
	Local banks – local currency	15,000,000
	Foreign banks – foreign currency	<u>47,971,000</u>
		<u>62,971,000</u>
<b>7</b>	<b>Financial assets at fair value through equity</b>	
	Regional listed sukuk	<u>50,348,886</u>
		<u>50,348,886</u>
<b>8</b>	<b>Investment in real estate</b>	

Investment in income generating industrial real estate; where 70% of the beneficial ownership is held by the Bank for a consideration of RO14.175 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 Shareholder's 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 Investment Account Holders.

The management believes that the fair value of investment in real estate is not materially different from its carrying value at 30 September 2013.

**BANK NIZWA SAOG****Notes to the condensed interim financial information***for the period from 15 August 2012 to 30 September 2013 (Un-audited)***9 Property and equipment - net**

	<b>Furniture &amp; Fixture RO</b>	<b>Equipment RO</b>	<b>Motor Vehicle RO</b>	<b>Computer Hardware RO</b>	<b>Capital Work in Progress RO</b>	<b>Total RO</b>
Additions	2,636,173	219,730	71,500	1,154,370	916,040	4,997,813
Depreciation	(543,333)	(25,997)	(13,844)	(189,273)	-	(772,447)
<b>Net book value at 30 September 2013</b>	<b>2,092,840</b>	<b>193,733</b>	<b>57,656</b>	<b>965,097</b>	<b>916,040</b>	<b>4,225,366</b>

**10 Intangible assets**

	<b>September 2013 RO</b>
Additions	1,497,102
Amortization	(254,231)
<b>Net book value at 30 September 2013</b>	<b>1,242,871</b>

The estimated useful life of the intangible assets is five years.

**11 Equity of unrestricted investment account holders**

Unrestricted investment account holders	8,061,015
Investment fair value reserve	(24,697)
Variable reserve	1,599
Investment risk reserve	1,083
	<b>8,039,000</b>

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



**BANK NIZWA SAOG****Notes to the condensed interim financial information***for the period from 15 August 2012 to 30 September 2013 (Un-audited)*

<b>12</b>	<b>Pre-incorporation expenses</b>	<b>Quarter ended September 2013</b>	<b>September 2013 RO</b>
	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
	Government grant	-	(2,700,000)
		-	748,862
<b>13</b>	<b>Pre-operating expenses</b>		
	Professional & consulting charges	-	711,841
	Staff cost	-	1,825,463
	Founding committee expenses	-	125,000
	Rent expense	-	233,246
	Training	-	18,547
	Telephone, electricity and water	-	112,109
	Board expense	-	17,850
	Others	-	128,201
		-	3,172,257
<b>14</b>	<b>Operating expenses</b>		
	Professional & consulting charges	16,225	88,714
	Staff cost	1,814,536	5,781,233
	Rent expense	207,751	594,655
	Telephone, electricity and water	15,430	63,538
	Board expenses	32,152	118,638
	Advertisement	85,795	427,217
	Government fess	30,313	94,050
	Others	316,701	1,003,661
		2,518,903	8,171,706

**BANK NIZWA SAOG****Notes to the condensed interim financial information**

for the period from 15 August 2012 to 30 September 2013 (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:

	<b>Principal shareholders</b>	<b>Senior management</b>	<b>Total</b>
<b>September 2013</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Islamic Financing	<b>600,000</b>	<b>70,733</b>	<b>670,733</b>
Customers' deposits	<b>585,969</b>	<b>394,536</b>	<b>980,505</b>

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

	<b>Principal shareholders</b>	<b>Senior management</b>	<b>Total</b>
<b>Quarter ended September 2013</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Profit income	-	<b>614</b>	<b>614</b>
Commission income	-	<b>20</b>	<b>20</b>
Staff cost	-	<b>475,978</b>	<b>475,978</b>
Other expenses	<b>8,550</b>	<b>21,472</b>	<b>30,022</b>

  

	<b>Principal shareholders</b>	<b>Senior management</b>	<b>Total</b>
<b>September 2013</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Profit income	-	<b>818</b>	<b>818</b>
Commission income	<b>4,351</b>	<b>68</b>	<b>4,419</b>
Staff cost	-	<b>1,197,499</b>	<b>1,197,499</b>
Other expenses	<b>95,036</b>	<b>106,620</b>	<b>201,656</b>

**16 Segment reporting**

For management purposes, the Bank is organised into five 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 customers that include lending, accepting deposits, trade finance and foreign exchange.
- Investment banking offers investment products such as asset management, corporate advisory as well as high net worth individuals and institutional clients.

**BANK NIZWA SAOG****Notes to the condensed interim financial information**

for the period from 15 August 2012 to 30 September 2013 (Un-audited)

**16 Segment reporting (continued)**

- Treasury 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.
- International banking offers services such as issuance of guarantee, risk participation, syndications, etc.

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 group basis and are not allocated to operating segments.

Segment information is as follows:

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury &amp; investment</b>	<b>Others</b>	<b>Total</b>
<b>September 2013</b>					
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Operating income	<b>240,846</b>	<b>86,126</b>	<b>1,369,669</b>	-	<b>1,696,641</b>
Net Loss/Profit	<b>(2,194,656)</b>	<b>(213,392)</b>	<b>1,016,447</b>	<b>(10,341,971)</b>	<b>(11,733,572)</b>
<b>Total assets</b>	<b>14,910,042</b>	<b>7,248,508</b>	<b>142,173,977</b>	<b>8,264,208</b>	<b>172,596,735</b>

**17 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**

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

**BANK NIZWA SAOG****Notes to the condensed interim financial information***for the period from 15 August 2012 to 30 September 2013 (Un-audited)*

<b>30 September 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RO</b>	<b>RO</b>	<b>RO</b>	<b>RO</b>
Financial assets				
Investment securities				
- at fair value through income statement	-	-	-	-
- at fair value through equity	<b>50,348,886</b>	-	-	<b>50,348,886</b>
Total financial assets	<b>50,348,886</b>	-	-	<b>50,348,886</b>

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