ANNUAL REPORT 2014

SOHAR

بنك نزوى
Bank Nizwa

BARKA

NIZWA

AL KHOUDH

SAMAIL

AL GHUBRAH

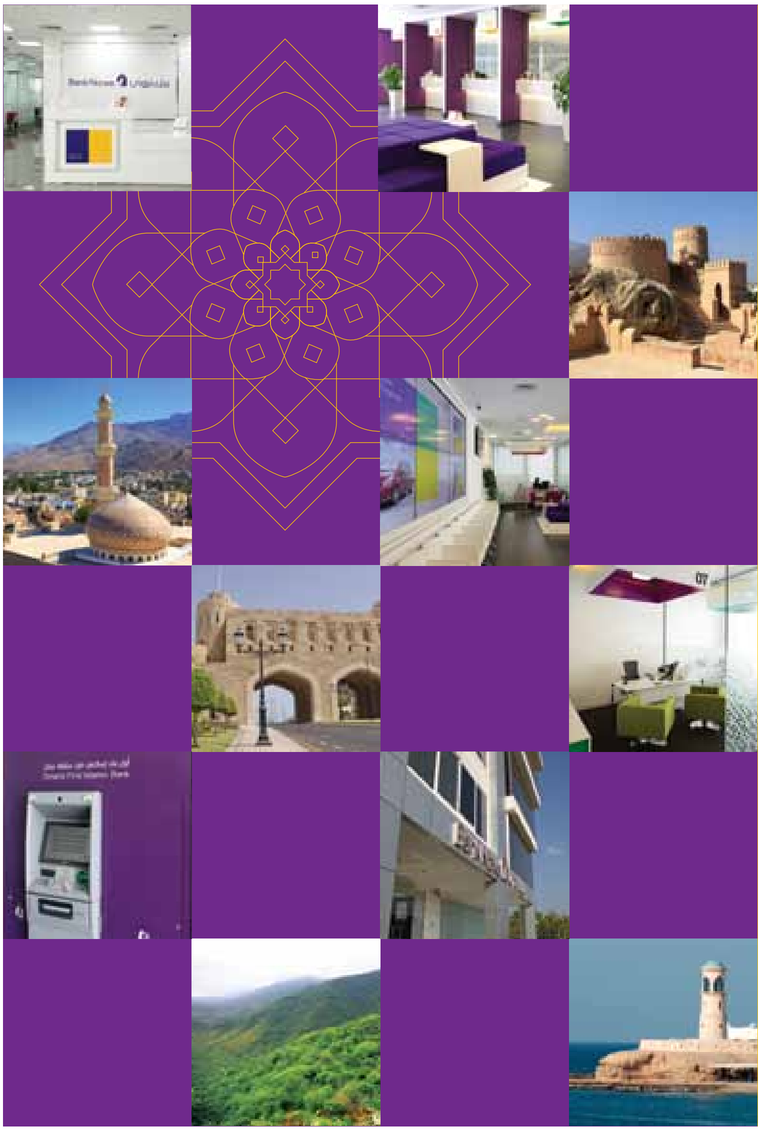
IBRA

QURUM

SALALAH

SUR

HIS MAJESTY SULTAN QABOOS BIN SAID



Bringing Islamic banking to the nation

Spreading awareness and understanding of Islamic banking is an imperative effort and one that we consider to be our responsibility. Our ongoing strategy is to bring Islamic banking to the doorsteps & fingertips of the people of Oman. combining Sharia-compliant products and services with today's dynamic financial requirements.

Our growing network reached 10 fully-fledged branches in 2014. By entrenching ourselves across the Sultanate, we are not only getting closer to our growing customer base and offering them reliable competitive propositions, but we are also helping them lead financially-secure lifestyles.

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BOARD OF DIRECTORS

From left to right:

Sheikh Yousuf bin Yaqoub Al Harthy (Board Member)
Sheikh Abdulaziz bin Saud Al Khalili (Board Member)
H.E. Sheikh Ahmed bin Saif Al Rawahi (Vice Chairman)
Sayyid Amjad bin Mohammed Al Busaidi (Chairman)
Sheikh Muadh bin Salim Al Ghazali (Board Member)
Sheikh Saif bin Hilal Al Mawali (Board Member)
Mr. Musabah bin Saif Al Mutairy (Board Member)
Dr. Said bin Mohammed Al Saqri (Boad Member)

MANAGEMENT TEAM

From left to right:

Tariq Osman (Incharge, Legal Department / Secretary to the Board of Directors)
Dr. Anwar Soubra (Head of Sharia)
Shantanu Ghosh (Deputy General Manager Operations)
Nasser bin Said Al Lamki (General Manager Internal Audit)
Mohamed Fida Hussain (Head of Credit Risk / Incharge, Risk Management)
Dr. Jamil El Jaroudi (Chief Executive Officer)
Dr. Ashraf bin Nabhan Al Nabhani (General Manager, Corporate Support)
Akbar bin Abdul Rasheed Al Balushi (Incharge, Compliance Department)
Dr. Yousuf Janahi (Head of IT)
Helmi Izham Harun Rashid (Deputy General Manager Markets and Investments)
Asad Batla (Head of Consumer Banking)
Khalid Al Kayed (General Manager Finance)

Key Financial Ratios and Performance Highlights

Common Equity Capital Ratio

45.6%

The Bank has **strong** Capital Base backed by permanent capital to absorb any unexpected shocks

Capital Adequacy Ratio

46.3%

The Bank has **strong** Capital Base to absorb any unexpected shocks

Leverage Ratio

43.4%

The Bank has **sufficient** Capital to absorb any unexpected shocks arising from On and Off-Balance Sheet exposures

Non-Performing Assets Ratio

0%

The Bank has **excellent** Asset Quality

Liquid Assets to Total Liabilities Ratio

57%

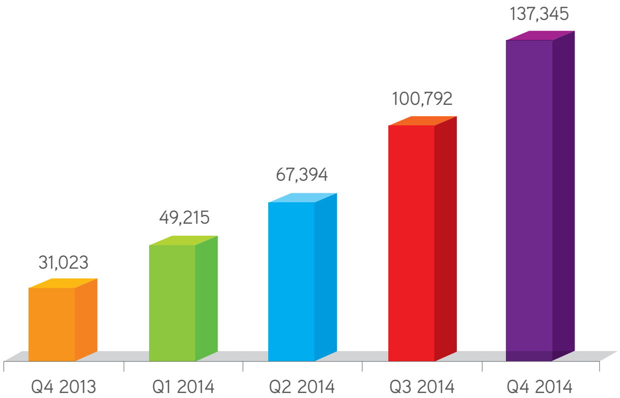
The Bank has **sufficient** liquidity assets to settle immediate liability claim

Short-Term Assets to Liabilities Ratio

150%

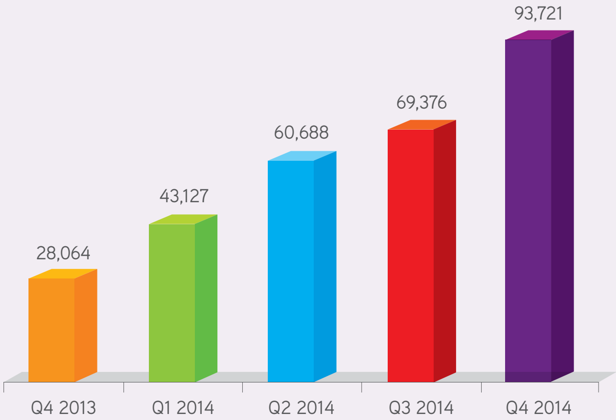
The Bank has **strong** liquidity position

Financing Growth (RO 000's)



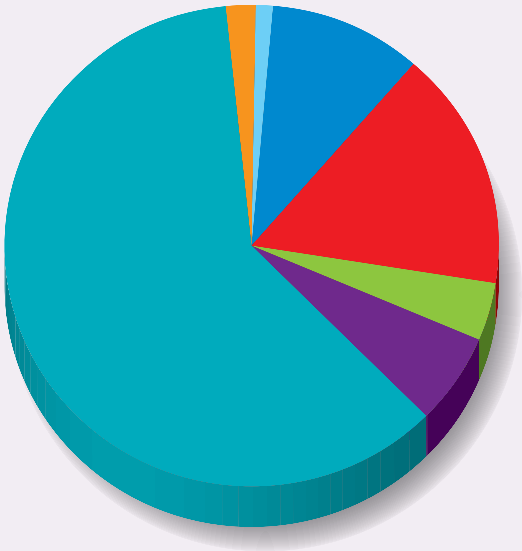
The bank showed robust growth in financing portfolio on a quarterly basis targeting towards achieving volumes while maintaining the assets quality without any non-performing financing since inception.

Deposits Growth (RO 000's)



The growth in deposits on a quarterly basis is a positive indicator for the Bank as more customers are now enjoying Sharia Compliant competitive profits and our personalised banking services. The Bank is now serving 32,852 retail and corporate deposit accounts with 90 per cent of deposits in current and savings, which is highest in the industry thereby reducing the concentration risk on deposits.

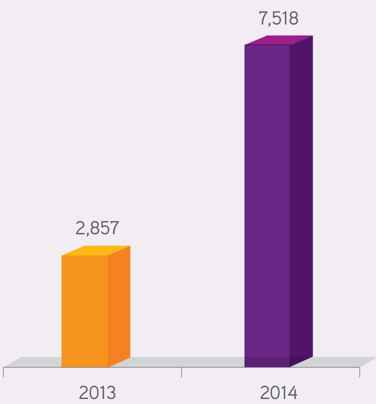
Asset Distribution (RO 000's)



Net financing after provision for both clients and financial institutions represent 61 per cent of total assets supported by strong liquidity position and capital adequacy ratio.

- Total Financing Net of Provisions 61%
- Net Property plant & equipment 2%
- Other Assets 1%
- Cash Balances with Central Bank 10%
- Due from banks and financial institutions 16%
- Investments in Sukuk 4%
- Investments in Real Estate 6%

Revenue Growth (RO 000's)



With the growth in Balance Sheet, revenues have increased by 163 per cent over prior year with a growth in cost by 18 per cent only during the same period showing the Bank is geared towards achieving breakeven targets and cost to income ratio.

Muscat Branch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CHAIRMAN'S REPORT

DEAR SHAREHOLDERS,

Assalamu'alaikum Wa Rahmat Allah Wa Barakatuh,

On behalf of the Board of Directors of Bank Nizwa SAOG, I am pleased to present to you the Financial Statements and Auditor's Report for the financial year ended 31 December 2014. The story that these results portrays is a testament to the ambition we have as the First Sharia compliant Bank in the Sultanate, as well as our passion to go beyond excellence. As we look back with a great sense of pride at the many accomplishments we have achieved in the year in review and our two-year history, we salute everyone who has been a great source of support along the way.

During the year our primary focus was on driving forward our corporate and consumer propositions, serving clients, strengthening its leadership position and making a significant positive impact on our communities. There is a lot to be learned and this will only provide us with greater impetus for improved performance in the coming year and we will continue to make new inroads in a new industry and highly competitive marketplace.

FINANCIAL PERFORMANCE

Focus on balance sheet management has been a key priority for the year. The total assets of the Bank as of 31 December 2014 reached 253 million Omani Riyals achieving a 29 per cent growth from 2013. In spite of all the challenges, contributions by Wholesale Banking were higher when compared to the previous year while Retail Banking continued to play an important role in gathering deposits and extending financing thereby increasing market share.

Balance Sheet growth was driven by financing portfolio progress which stood at 137.3 million Omani Riyals, recording a surge of 343 per cent which provided the momentum needed to continue our growth trajectory while enhancing the quality and diversity of our revenue base towards core revenue from financing portfolio which was the largest contributor to the Bank's total revenues representing 66 per cent. A move from low yield and liquid assets into higher yield and longer maturity assets continued in order to achieve an optimal balance sheet structure. The Bank maintained high assets quality without any non performing financing for the second year since inception.

Customers' deposits, the core source of balance sheet funding, reached 93.7 million Omani Riyals by the end of the period, recording a growth of 234 per cent. The composition of the deposits portfolio has aided in the reduction of concentration risk where current and saving accounts are the largest portion of the deposit portfolio representing 90%, which is the highest in the market.

Balance Sheet developments resulted in revenues enhancement in quality and volumes, showing gross growth of 163 per cent over the previous year compared to 18 per cent cost growth during the same period. We are on track to achieving the targeted cost to income ratio and resultant breakeven targets.

As a result of revenue growth, managing and monitoring the cost, the net loss after tax and provision decreased by 37 per cent over the previous year.

INNOVATION

Innovation was and continues to be a catalyst that shapes the way we conduct our business. The results were evident across multiple divisions of the Bank. The Corporate & Commercial Banking division introduced the first-ever lease and sub-lease financing combination structure where the asset-base was insufficient to back normal Ijara-finance and also piloted the concept of Wakala bel Istithmaar working capital facilities. Retail Banking launched a number of value-added financing solutions to help customers acquire automobiles, homes and other needs for modern-day requirements. Risk Management implemented new metrics, policies and monitoring tools in addition to a continuous improvement programme to further build a robust Corporate Governance structure while the latest technology continues to be adopted to redefine the customer experience.

This culture of innovation will be nurtured in the years ahead as it will only spur greater operational efficiency and higher levels of customer satisfaction.

RETAIL FOOTPRINT

In efforts to get closer to customers and gain a better understanding of their needs, the Bank achieved its two-year network expansion target on schedule with the opening of 10 fully-fledged branches across the Sultanate. Today our presence extends starting from Muscat and capturing the north of the Sultanate in Sohar all the way to the South of the country in Salalah.

In 2015 and beyond, we will continue to grow our footprint to reach communities across the length and breadth of the Sultanate and make Islamic banking more accessible.

CUSTOMER EXPERIENCE

Offering customers an enriched and rewarding banking experience will always be at the core of everything we do. Designed to meet the professional and personal needs of today's modern Omani woman, the Bank tailored its Islamic Banking offering and launched a new customised experience that empowers women to lead financially secure lifestyles while offering a world of instant rewards and benefits. This was well received and appreciated especially given the fact that approximately 20% of our customer base is comprised of females.

We have also further developed our different banking channels to offer state-of-the-art Automated Teller Machines and Cash & Deposit Machines, Internet Banking, Mobile Banking and a 24/7 Call Center.

HUMAN CAPITAL

Employees are the driving force behind the Bank's success and efforts were centred on advancing capacities and capabilities to become the leaders of tomorrow in this burgeoning industry. To this end, a Human Resources Management System (HRMS) was implemented and more than 500 training programmes were conducted. A 'succession planning' programme was also initiated to prepare high-potential employees to fill key positions within the Bank and Omanisation increased to 86%.

The Bank is fully committed to not only attracting the best and brightest talent but also focusing equally on retention to become an employer of choice by creating a nurturing and empowering corporate culture that promotes innovative and forward thinking.

ISLAMIC FINANCE AWARENESS

Since the very beginning, we have taken it upon ourselves to empower communities with the knowledge and understanding of the benefit of Sharia compliant solutions and present them with new, untapped opportunities. We have become the unofficial ambassador for Islamic Finance in Oman by conducting a number of open-sessions to give different segment of the society direct access to our experts and advice on making informed decisions in accordance with their beliefs.

This will continue to be a key priority for us in the coming year as our ultimate aim is to become the go-to-reference for trusted financial advice.

CORPORATE SOCIAL RESPONSIBILITY

Corporate stewardship has and will remain to be an integral component of the Bank's modus operandi and we aim to play a pioneering role in supporting social, economic, and industry-related activities through strategic collaborations with various organisations and entities in Oman. In an effort to continue its support and endorsement of Islamic values, Bank Nizwa partnered with the Ministry of Endowment and Religious Affairs to support a Zakat campaign during the holy month of Ramadan. The Bank also offered customers an option to pay Zakat by depositing cash or regularly transferring directly into an account allocated for the Ministry of Endowment and Religious Affairs. This tie-up offered Bank Nizwa customers a convenient, secure and seamless service to meet their religious obligations.

The Bank's commitment to giving back to the community is demonstrated by its employees through the establishment of a Volunteer Group called "Masoliyati" to instil values of compassion, responsibility and community spirit. The Group has successfully conducted several volunteer projects throughout the year and aims to continue giving back to the community.

CORPORATE GOVERNANCE

The Bank has fully complied with all directives of the CMA Code of Corporate Governance for Public Listed Companies and the CBO circular BM 932, Corporate Governance of Banking and Financial Institutions, which are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. A comprehensive Corporate Governance report certified by the statutory auditors is enclosed.

FUTURE OUTLOOK

The Bank has built a solid foundation for success and our strategy will remain the same in the coming year. We will continue to dedicate efforts to strengthening operations, product and service propositions - with particular focus on Corporate Banking, Consumer Banking, Investment Banking, Global Markets, SMEs and mobile solutions - and our people with the end goal of achieving the highest levels of customer satisfaction underpinned by the latest advances in technology.

While the effects of the weakened oil prices resulting in slower growth across GCC and is felt by many of the Oman's key trading partners. Growth may be slightly lower than in 2013, it should remain robust, underpinned by public investment as a number of major projects are underway on back of strong fiscal buffers that have been created after running a year of surplus that will support diversification and growth well into the future and this will be further supported by Oman's stance on trade and investment and a sound financial sector.

To date, Oman has witnessed a decent growth in terms of demand, acceptance and development of Islamic finance since it was introduced two years ago. However, still a lot more needs to be done to create awareness about the industry, to make the customer familiar with the procedures and comprehensive legal framework, promoting Shariah compliance in all aspects, to transition towards a more sustainable future for the Islamic finance industry.

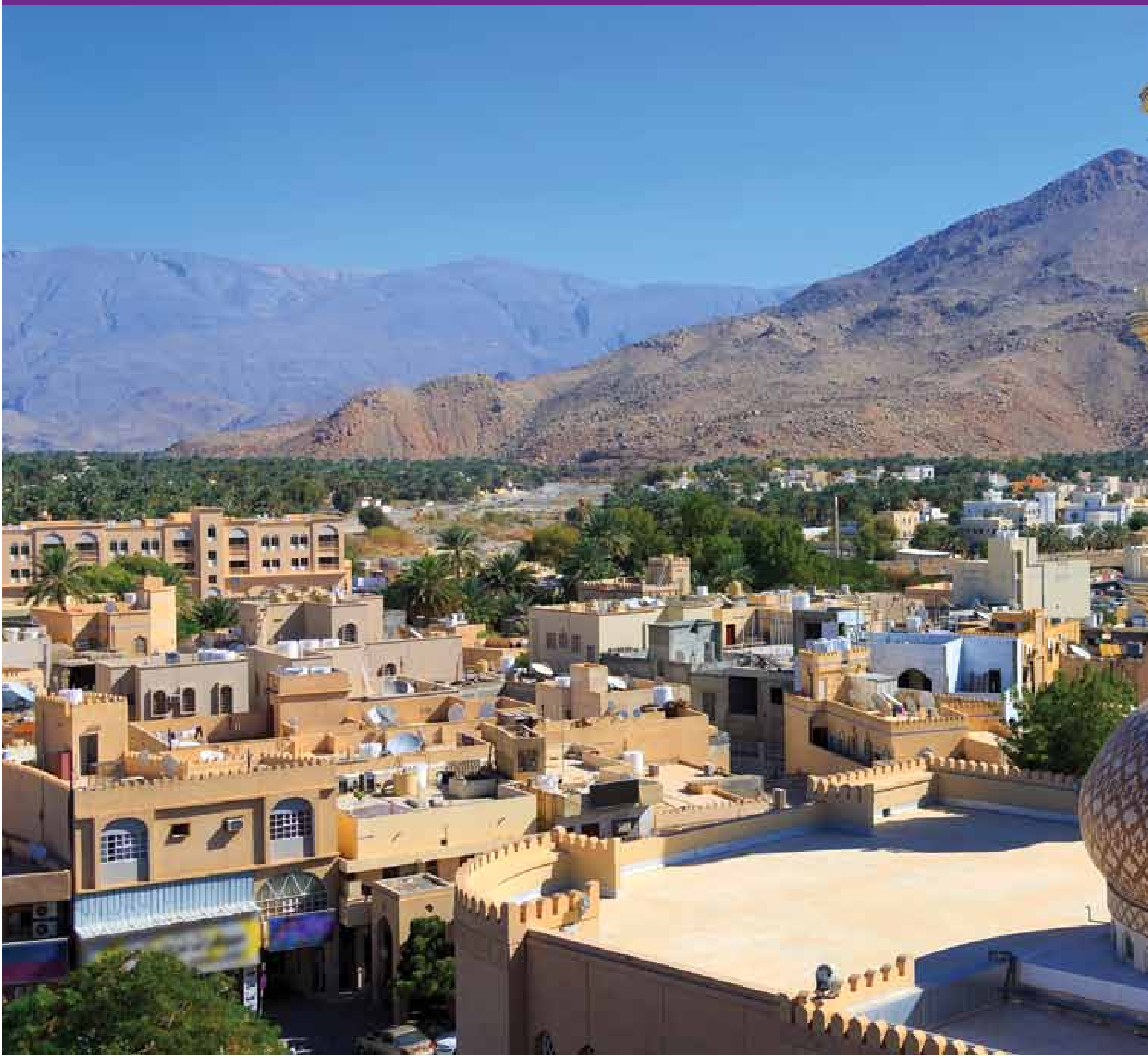
ACKNOWLEDGEMENT

On behalf of the Founders, Board of Directors, Executive Management and staff, I would like to express our sincere gratitude to His Majesty Sultan Qaboos bin Said, for his foresight and visionary leadership that continues to advance the nation and the banking sector in particular. Special thanks is also extended to the Central Bank of Oman and the Capital Market Authority for their invaluable guidance and support that has ensured the success of Islamic banking in the Sultanate.

Amjad Mohammed Al Busaidi

Chairman

Nizwa Branch

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Bank Nizwa بنك نزوى

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MBD
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P.C. 112
Sultanate of Oman

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Report to the shareholders of Bank Nizwa SAOG ("the Bank") of factual findings in connection with the Corporate Governance report of the Bank and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Bank ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007. The Report is set out on pages 1 to 15.

Our engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Bank's application of the provisions of the Code and is free from any material misrepresentation.

Because the Procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Bank's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Bank's annual report, and is not to be used for any other purpose; and we accept no responsibility to any third party. This report relates only to the Report included in the Bank's annual report for the year ended 31 December 2014 and does not extend to the financial statements or any other reports of the Bank, taken as a whole.

26 February 2015

Khalid Masud Ansari

C.R. No. 1/30936/6

CORPORATE GOVERNANCE REPORT

The Board of Directors of Bank Nizwa SAOG ("Bank Nizwa" or the "Bank") is committed to the highest standards of Corporate Governance as set out in the letter and spirit of the Code of Corporate Governance laid out by the Capital Market Authority (CMA) and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO).

Corporate Governance is the system of rules, practices and processes by which the Bank is directed and controlled. Corporate governance essentially involves balancing the interests of any stakeholders in the Bank - these include its shareholders, management, customers, suppliers, financiers, the government and the community. Since corporate governance also provides the framework for attaining the Bank's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

The CMA Code of Corporate Governance for Public Listed Companies and the CBO circular BM 932, Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Bank Nizwa complies with all of their provisions. The CMA Code of Corporate Governance can be found at the following website: www.cma.gov.om. Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders; or more broadly as its relationship to society.

Board of Directors

The Board of Directors (the "Board") of the Bank was elected for a period of three years by the Shareholders, during the Constitutive General Assembly that took place on 28 July 2012.

The Board is responsible for overseeing the Bank's management and business affairs and makes all major policy decisions of the Bank.

The Board is responsible for approving the financial statements of the Bank, and the overall compliance of the Bank with the applicable rules and regulations. The Board continuously protects and enhances shareholders' value by looking after the Bank's overall corporate governance. The Board members have acknowledged that they shall, during the term of the Board, remains compliant with the applicable rules and regulations, and they shall inform the Bank of any changes in their status which might affect their category or status. The Bank's Board's principal responsibilities are as follows:

• Appointing key executives with integrity, technical and managerial competence and appropriate experience, and deciding their compensation package;

• Overseeing succession planning and replacing key executives when necessary;

• Reviewing key executive and Board remuneration packages and ensuring such packages are consistent with the Bank's corporate values and strategy;

• Ensuring a formal and transparent Board nomination process;

• Effectively monitoring and evaluating management's performance in implementing agreed strategy and business plans, and ensuring that appropriate resources are available;

• Approving budgets, reviewing performance against those budgets and deciding on the future strategies and plans;

• Meeting regularly with senior management and respective Board Committees to establish and approve policies and review key developments;

• Identifying, understanding and measuring the significant risks to which the Bank is exposed in its business activities; and

• Board members shall independently assess and question the policies, processes and procedures of the Bank, with the intent to identify and initiate management action on issues requiring improvement (i.e. to act as checks and balances on management). Procedures may be defined to appoint advisors or external experts to assist Board members in effectively discharging their responsibilities.

Composition & Classification of the Board

Bank Nizwa is represented by eight Directors, where all of them are non-executive Directors.

Sl. No.	Name of Director	Category	Represents	No. of Other Directorship	Status
1	Sayyid Amjad bin Mohammed Al Busaidi	Non-Executive	Independent	2	
2	Sheikh Abdulaziz bin Saud Al Khalili	Non-Executive	Independent	0	
3	Dr. Adil Abdul Aziz Yahya Al Kindi	Non-Executive	Independent	1	Resigned
4	Mr. Musabah bin Saif Al Mutairy	Non-Executive	Royal Guard Pension Fund	3	
5	Eng. Amer Hamed Abdullah Al Suleimani	Non-Executive	Independent	0	Resigned
6	Sheikh Yousuf bin Yaqoub Al Harthy	Non-Executive	Independent	0	
7	Sheikh Saif bin Hilal Al Mawali	Non-Executive	Independent	0	
8	Sheikh Muadh bin Salim Al Ghazali	Non-Executive	Independent	4	
9	H.E. Sheikh Ahmed bin Saif Al Rawahi	Non-Executive	Independent	0	
10	Dr. Said bin Mohammed Al Saqri	Non-Executive	Independent	0	

Profile of Directors

Sayyid Amjad bin Mohammed Al Busaidi - Chairman

Sayyid Amjad is currently Assistant Head of Admin and Finance at Diwan of Royal Court. He has served as the Executive President at the Diwan of Royal Court Pension Funds, and as Deputy Director General at the Directorate General of Financial Affairs. His list of memberships includes coveted positions such as Chairman of Oman Qatari Telecommunications Company (Ooredoo) and Vice Chairman of National Mass Housing Company. He holds a Masters of Business Administration degree from Southern Cross University, Australia.

H.E. Sheikh Ahmed bin Saif Al Rawahi - Vice Chairman (Joined April 2014)

Starting his career in 1978 as the Deputy Director of Finance at the Diwan of Royal Court, Ahmed bin Saif Al Rawahi ascended the ranks of government while holding several corporate posts and was the Chairman of the Founding Committee at Bank Nizwa.

An economist with over 35 years of experience in Oman's government and the private sectors, Al Rawahi has served as Chairman and Member of various committees including the Diwan Pension Fund, the Y2K Task Force and the Royal Court Affairs Budget Committee. He was the recipient of a string of commendations from various government bodies throughout his tenure topped by the third Order of Oman from His Majesty Sultan Qaboos bin Said for his exemplary work in civil society in 1995.

A holder of Bachelor of Science degree from the University of California in 1978, Rawahi also holds an MBA from The American University in Washington D.C. and a Public Finance Budgeting Diploma from Harvard University.

Eng. Amer Bin Hamad Abdullah Al Suleimani – Vice Chairman (Resigned April 2014)

Engineer Al Suleimani was a founding member of Bank Nizwa who held the position of Vice Chairman. Eng. Al Suleimani is also currently the Managing Director of Worley Parsons Oman Engineering LLC and Arabian Industries LLC. He holds positions as Chairman of International Business Development Company LLC and Vice Chairman of Tabreed Oman SAOC. Eng. Al Suleimani is a majority shareholder in various companies including Ibn Hamed Trading and Contracting LLC, Horizon Industrial Development Company LLC, Private Project Development LLC, and Gulf Developers LLC. Amongst his many achievements is setting up and working with numerous non-profit civil societies. Eng. Al Suleimani received his engineering qualifications from Cardiff University, United Kingdom.

Sheikh Abdulaziz bin Saud Al Khalili – Member

Sheikh Al Khalili is involved in the administration and management of family and private businesses for over a decade and has served at the Diwan of Royal Court for a duration of four years. He holds degrees in Science and Business Administration.

Mr. Musabah bin Saif Al Mutairy – Member

Mr. Al Mutairy is currently the Manager of Accounts as well as the Pension Fund Manager at the Royal Guard of Oman. He has held important positions as the Board member of Dhofar Power Company SAOG, Hotel Management Company (Chedi), Mena Resident (Bahrain), Gulf Investment Bank and Khaleeji Commercial Bank (Islamic Investment Bank, Bahrain) and has been a member of the Investment committee for Gulf Finance House, United Security GCC Fund, NIFCO GCC Fund and Royal Guard of Oman Pension Fund. He was conferred Masters of Business Administration degree with specialisation in Finance by the University of Lincolnshire and Humberside (UK).

Sheikh Muadh bin Salim Al Ghazali – Member

Sheikh Muad is the General Manager for a real estate company and has had a successful career spanning six years, working with Group companies in the Sultanate of Oman. He is a member of the Board of Directors for Golden Group of Companies and Ministry of Manpower and holds degrees in Science Accounting from Majan College.

Dr. Said bin Mohammed Al Saqri - Member (Joined April 2014)

Dr. Said Al Saqri is a board member at Bank Nizwa and brings with him more than 20 years of experience as the Director of Councils and Committees at the Office of the Advisor to His Majesty Sultan Qaboos bin Said for Economic Planning Affairs. Starting his career as an Economic Researcher, Dr. Said Al Saqri is an expert of economic and financial policy formulation and bilateral and multilateral trade relations development.

Dr. Said Al Saqri is the author of several papers on trends and growth in the GCC along with a conference paper titled Total Factor Productivity, Innovation and Source of Growth in the Omani Economy for the University of Cambridge.

A Hubert H. Humphrey Fellow, Dr. Said Al Saqri also holds a PhD on petroleum resources, linkages and development from Victoria University in Australia and Masters of Science degree holder for financial economics from Boston University.

Dr. Adil Abdulaziz Yahya Al Kindy – (Resigned March 2014)

Dr. Al Kindy is an engineer by profession and has previously held the position of CEO of Oman Refineries & Petrochemicals Company. Dr. Al Kindy was appointed to The State Council in 2011 and has served as a member of a number of professional and academic institutions and Boards, including the Sultan Qaboos University Council, Oman Authority for Academic Accreditation. He was also the Chairman of the Oman Society of Engineers. He received his PhD in Civil Engineering from Loughborough University in the UK.

Sheikh Saif bin Hilal Al Mawali – Member

Sheikh Saif Al Mawali has worked for the Ministry of Commerce and Industry and the Directorate General of Organisations and Foreign Relations. He has served as the Custom Clearance Officer at the Sultan Qaboos Port and also as the Customs Liaison Officer for the regional office for MENA and Near East region. He has been a member at the FTA negotiations between Oman and USA along with several other key positions in related fields. Sheikh Saif Al Mawali's experience also spans across the private sector as he has successfully overseen the development of various real estate projects in Oman. He has received a Bachelor's degree in Economics from Arkansas University in USA.

Sheikh Yousuf bin Yaqoub Al Harthy – Member

Sheikh Yousuf is the CEO of Mazoon Trading & Contracting, and is also the founding member, Board member and executive committee member of United Finance S.A.O.G and many such prestigious organisations. Over and above his various achievements he has been serving as the Honorary Consul of Chile to the Sultanate since 1988. He received the Bachelor of Business Administration degree from USA.

Meetings and Remuneration of the Board

The Board meets regularly, to discharge its duties, monitor the executive management, and exercise necessary control over the Bank's functioning. The Board conducts its business in formal meetings. In Board meetings, the "majority" is computed as the absolute majority of the Directors present in person. During the year the board has conducted nine meetings.

The attendance schedule of the meetings conducted during this year, and each Board member's attendance is as per the following:

Name of Director	27/1/2014	27/2/2014	12/3/2014	27/4/2014	30/4/2014	23/7/2014	11/9/2014	27/10/2014	15/12/2014
Amjad Mohamed Ahmed Al-Busaidi	√	x	√	√	√	√	√	x	√
Amer Hamed Abdullah Al Suleimani	√	√	√	-	-	-	-	-	-
Abdulaziz Saud Ali Al Khalili	√	√	√	√	√	√	√	√	√
Musabah Saif Musabah Al-Mutairy	√	√	√	x	√	√	x	√	√
Yousuf Yaqoob Hamed Al Harthi	√	√	√	√	x	√	√	√	√
Saif Hilal Nasser Al Mawali	√	√	√	√	√	√	√	√	√
Muadh Salim Ahmed Al Ghazali	√	√	x	√	√	√	x	√	√
Adil Abdul Aziz Yahya Al Kindi	√	√	x	-	-	-	-	-	-
Ahmed bin Said Al Rawahi	-	-	-	-	√	√	x	√	√
Said bin Mohammed Al Saqri	-	-	-	-	√	x	√	√	√

Board of Directors has received an amount of RO 50,000 as sitting fees for the year ended December 31, 2014, which included the Board sub-Committees, where the sitting fees per Director did not exceed RO 10,000 as per the guidelines of CMA. The total remuneration received by the top 5 Executives in Management during the year ended from December 31, 2014 is RO 749,083.

Committees of the Board

The Board of Directors has created various sub-committees for specific purposes with the clearly defined term of reference and responsibilities. The committees' mandate is to ensure focused and specialised attention to specific issues related to the Bank's governance. The various committees of the Board together with the Internal Audit, Risk and Compliance Department form an important tool in the process of corporate governance.

Board Executive Committee

The members of the Board Executive Committee are playing an increasingly important role to ensure that the financing exposures and investments conform to the respective policies of the Bank and to ensure implementation of the Business Strategy, Policies and Procedures of the Bank.

Executive Committee

Name of Members	No. of Meetings Attended
Adil Abdul Aziz Yahya Al Kindi - Chairman (Resigned)	1
Musabah bin Saif Al Mutairy	2
Saif bin Hilal Al Mawali	3
Ahmed bin Saif Al Rawahi	2
Said bin Mohammed Al Saqri	2
Total Number of Meeting Held During the year	3

Board Audit Committee

The main functions of the Audit Committee are to assist the Board in discharging its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct. Accordingly, to ensure the balance, transparency and integrity of published financial information. The Audit Committee also reviews the effectiveness of the Bank's internal financial control and risk management system; the effectiveness of the internal audit function; the independent audit process including recommending the appointment and assessing the performance of the external auditors; the Bank's process for monitoring compliance with local laws and regulations affecting financial reporting and, if applicable, its code of business conduct.

Audit Committee

Name of Members	No. of Meetings Attended
Yousuf bin Yaqoob Al Harthy - Chairman	3
Adil Abdul Aziz Yahya Al Kindi (Resigned)	1
Musabah bin Saif Al Mutairy	4
Saif bin Hilal Al Mawali	1
Total Number of Meeting Held During the year	4

Board Remuneration & Nomination Committee

The role of the Board Remuneration & Nomination Committee is to review and approve the selection criteria and appointment procedures for the Chief Executive Officer, Senior Management and any other key position as may be determined by the Board of Directors or the applicable laws, rules and regulations. The Committee also ensures application of the remuneration framework for the Chief Executive Officer, Senior Management and any other key position as may be determined by the Board of Directors or the applicable laws, rules and regulations.

Remuneration & Nomination Committee

Name of Members	No. of Meetings Attended
Amer Hamed Abdullah Al Suleimani - Chariman (Resigned)	1
Abdulaziz bin Saud Al Khalili	4
Muadh bin Salim Al Ghazali	2
Ahmed bin Saif Al Rawahi	2
Dr. Jamil El Jaroudi	4
Total Number of Meeting Held During the year	4

Board Governance Risk & Compliance Committee

The Board Governance Risk & Compliance Committee's (BGRCC) primary function is to assist the Bank's Board of Directors in fulfilling its governance, compliance and risk management responsibilities as defined by applicable laws, Central Bank of Oman regulations and the Bank's internal regulations. As such, the BGRCC exercises the authority and power delegated to it by the Board. The BGRCC's function is one of oversight, recognising that Top Management is responsible for executing the Bank's risk management policies. BGRCC will neither be involved in the day-to-day management of risk nor in assessing / approving single transactions regardless of amount or risk level.

Risk Committee

Name of Members	No. of Meetings Attended
Amjad bin Mohammed Al-Busaidi - Chairman	3
Saif bin Hilal Al Mawali - Removed	1
Muadh bin Salim Al Ghazali	2
Abdulaziz bin Saud Al Khalili - Replaced	2
Total Number of Meeting Held During the year	3

Major Shareholders

Bank Nizwa was incorporated with a capital of RO 150 million. The Bank's shares are listed on the Muscat Securities Market. The Shareholders, holding more than 5% as on December 2014 are tabulated hereunder:

Major shareholders	%
Al Ghadeer Investment	8.667
Civil Pension Fund	6.874
Diwan of Royal Court Pension Fund	5.000

Bank Nizwa Share Price Movements

DATE	HIGH	LOW	CLOSE	AVERAGE INDEX
Jan-14	0.103	0.100	0.101	8,498.040
Feb-14	0.101	0.096	0.096	8,387.220
Mar-14	0.096	0.090	0.092	8,175.760
Apr-14	0.092	0.088	0.088	7,998.450
May-14	0.091	0.086	0.086	8,153.150
Jun-14	0.087	0.081	0.084	8,548.450
Jul-14	0.085	0.082	0.083	8,756.150
Aug-14	0.085	0.083	0.083	8,896.660
Sep-14	0.096	0.083	0.095	9,305.600
Oct-14	0.095	0.083	0.089	8,480.280
Nov-14	0.089	0.085	0.085	7,760.750
Dec-14	0.087	0.073	0.080	7,710.310

Source: MSM Monthly Bulletins

Communication with Shareholders and Investors

The Management Discussion and Analysis Report form part of the annual report besides detailed disclosures in accordance with regulatory requirements and international standards. The Bank publishes its interim financial statements on quarterly basis and also hosts these and other relevant information at its website (www.banknizwa.om) and Muscat Securities Market (MSM) website (www.msm.gov.om). The quarterly results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders from the Bank. Bank's official news releases are displayed on the Bank's website.

Compliance with Regulatory Requirements

There is no non-compliance event reported and no fines or penalties were imposed on the Bank since inception.

All necessary corrective measures have been taken to achieve full compliance status.

Dividend Policy

The Bank's dividend policy complies with the CBO and Capital Markets Authority guidelines. The Bank follows a conservative dividend policy and shall recommend the distribution of the dividends to the shareholders after due consideration of the regulatory guidelines, the future growth expectations, AGM approval and other factors.

Sharia Supervisory Board

Shareholders have elected during the Constitution General Assembly held on 28 July 2012, members of the Sharia Supervisory Board ("SSB"). The SSB members were re-elected on March 25, 2014 for the period of one year, the current SSB Members are as follows:

1. Sheikh Muhammad Taqi Al Usmani (Chairman)
2. Dr. Abdul-Sattar Abdul-Kareem Abu Ghuddah (Vice Chairman)
3. Sheikh Ibrahim bin Nasser Al Sawafi
4. Sheikh Dr. Mohammad bin Rashid Al Gharbi

The main roles and responsibilities of the SSP:

- Sharia Compliance department (SCD) is an element of the governance structure as established in Bank Nizwa and approved by the Sharia Supervisory Board (SSB). An effective Sharia policy enhances the diligent oversight of the Board of Directors (BOD), the SSB and the Management of the Bank to ensure that the operations and business activities of the Bank remain consistent with Sharia principles and its requirements.

- To ensure Sharia compliance in all aspects of day-to-day Islamic finance activities of the Bank, the Central Bank of Oman (CBO) has spelled out several provisions in relation to the establishment of a SSB and an internal SCD in an Islamic Bank. The SSB is an independent Sharia supervisory body which plays a vital role in providing Sharia views and rulings pertaining to Islamic finance activities of the Bank. The SSB also acts as monitoring bodies which perform an oversight role through the Sharia Compliance Department to maintain Sharia compliance in the operations and business activities of the Bank.

- At the institutional level, the SCD acts as an intermediary between the SSB and the Management team of the Bank. The SCD together with the SSB has the role to assist the Management in ensuring that all activities of the Bank are in compliance with the Sharia rules and principles, in accordance with the guidelines laid down by Islamic Banking Regulatory Framework issued by the CBO. However, the accountability to ensure Sharia compliance as well as the implementation of SSB's Sharia rulings remains with the BOD and the Management of the Bank.

- SCD reports functionally directly to SSB and to CEO with respect to administrative issues. SSB through SCD provides copies of its Sharia decisions and resolutions to Board of Directors and CEO because management is responsible to assure that Sharia resolutions are executed in the transactions and all products and services of the bank. SSB reports its findings directly to the general assembly of shareholders at the end of each year.

- Sharia Compliance Department performs its functions based on the guidelines provided by CBO in the IBRF and by Sharia rulings and resolutions issued by SSB as well as the Sharia Standards issued by AAOIFI. To ensure effectiveness of the functions, the SCD covers both the ex-ante and ex-post examinations, on constant review basis, each type of transaction across business lines, the relevant documentations and procedures adopted and/or entered into by the Bank. The overall Sharia Compliance activities are reported in the Monthly CEO Report which is sent to the Management of the Bank and the same report is provided to the SSB on its quarterly SSB's meeting. Meanwhile, the event reporting of any Sharia non-compliance risk management is being done on a monthly basis to record and evidence any committed Sharia non-compliant event, if any.

- On the ex-post function, Sharia Audit unit executes continuous audit for transactions of all departments. Its observations and findings are reported by Sharia Audit report to SSB which is also conveyed and discussed with Management, with documentation of Management responses in addition to recommending action plan for each observation.

- To ensure Sharia compliance in execution, all transactions are executed according to Standard Operating Procedures prepared by the Operations Department and approved by the concerned department heads including Sharia. Sharia audit uses screen sheets to meet Sharia requirement and ensure that the SOPs are adhered to during execution.

Schedule of attendance for Sharia Supervisory Board members for the year 2014:

Name of Director	Position	6/1/2014	10/4/2014	10/9/2014	2/12/2014
Sheikh Taqi Uthmani	Chairman	√	x	x	√
Sheikh Dr. Abdul Sattar Abou Ghuddah	Vice Chairman	√	√	√	X
Sheikh Dr. Mohamad Al-Gharbi	Member	√	√	√	√
Sheikh Ibrahim Sawwafi	Member	√	√	√	√

Details of attendance in Sharia executive committee meeting held during the year membered for the year 2014:

Executive Committee

Name of Members	No. of Meetings Attended
Sheikh Dr. Mohamad Al-Gharbi	12
Sheikh Ibrahim Sawwafi	12
Total Number of Meeting: Held During the year	12

Details of Sharia Board Members remuneration during the year:

No	Sharia Board Member	Total Remuneration
1	Sheikh Abdul Sattar Abou Ghuddah	14,735
2	Shiekh Taqi Usmani	15,054
3	Sheikh Ibrahim Al Sawwafi	18,644
4	Sheikh Mohammed Al Gharbi	18,642
	TOTAL AMOUNT	67,075

Sharia Supervisory Board Members Profile

SH. Mohammed Taqi Usmani (SSP Chairman): Sheikh Muhammad Taqi Usmani joined Bank Nizwa as the Chairman of the Sharia Supervisory Board in July 2012. An expert Islamic Finance, Islamic jurisprudence, research and banking, Usmani ensures that the Bank's operations, products and services are fully aligned and comply with the principles of Sharia.

In addition to role as Chairman of the Bank Nizwa Sharia Board, Usmani also serves as Chairman of the International Sharia Standard Council, Accounting and Auditing Organization for Islamic Financial Institutions in Bahrain. He also sits on the Sharia Board at 14 other institutions around the world including the International Islamic Fiqh Academy in Jeddah, and the Islamic Fiqh Academy of Muslim World League in Makkah, KSA, to name a few.

During his tenure, Usmani pioneered the concept of Islamic Banking in Pakistan when he established the Meezan Bank in 1997. Today, he is considered one of the most influential Islamic authors outside the Middle East with published works in Arabic, Urdu and English.

In 2004, Usmani was presented with an award in recognition of his lifetime service and achievement in Islamic Finance by United Arab Emirates Vice President and Prime Minister Mohammed bin Rashid Al Maktoum during the annual International Islamic Finance Forum (IIFF).

A Master's degree holder in Arabic literature from Punjab University, Usmani obtained his degree in Islamic education from Darul Uloom Karachi, the largest and most renowned Islamic educational institution in Pakistan and a law degree (LLB) from Karachi University.

DR. Abdulsattar Abdul Kareem Abughuddah (Deputy Chariman): Dr. Abdul Sattar Abdul Kareem Aboughuddah is the Deputy Chairman of the Bank Nizwa Sharia Supervisory Board.

He is an active member of Islamic Fiqh Academy evolving from the Organization of Islamic Conference in Jeddah, KSA, and a member of the Sharia Standard Board and Sharia Supervisory Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain. He is currently the Chairman and a member of the Sharia Supervisory Boards of a number of Islamic Banks and institutions in the region including the Sharia Supervisory Board of the Central Bank in Bahrain, and Dow Jones index, USA.

Prior to his current roles, Dr. Abu-Ghuddah held the positions of Expert and Reporter for the Islamic Fiqh Encyclopedia, Ministry of Awqaf & Islamic Affairs, Kuwait. He is also the author of several books on Islamic jurisprudence and Fatwa of modern financial transactions and other specialist Islamic subjects.

Dr. Abou Ghuddah holds two Bachelor degrees in Law and Sharia from the University of Damascus, and two Master's Degrees in Sharia and Hadith and a PhD in Comparative Islamic Jurisprudence from Al-Azhar University in Egypt.

SH. Ibrahim Bin Nasser Al-Sawwafy (Member): Sheikh Ibrahim bin Nasser Al -Sawafi joined Bank Nizwa as a member of the Sharia Supervisory Board in July 2012. In his capacity, Sheikh Al-Sawafi also serves as the Fatwa Trustee for the Mufti of Oman and a Member of the Committee for Endowments and Zakat at the Ministry of Endowment and Religious Affairs.

As an eminent scholar, he contributes to various radio and television programmes presenting Islamic issues and pens several newspaper columns and articles. He has written more than twenty books and organised training sessions on various Islamic topics while regularly attending conferences on areas such as Islamic Finance, Takaful, Sukuk, Corporate Governance, Islamic Jurisprudence to name few.

Sheikh Al-Sawafi holds a degree of high judicial license from the Sharia Justice Institute, graduating with distinction, and is a prominent professional Sharia Auditor, certified by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

SH. Dr. Mohammed Bin Rashed Al-Gharbi (Member): Mohammad bin Rashid Al-Gharbi has been a member of the Sharia Supervisory Board at Bank Nizwa since July 2012.

Sheikh Al-Gharbi is currently Assistant Professor in the Department of Islamic Sciences at Sultan Qaboos University. He is a published academic with an extensive research portfolio, based upon his contribution and attendance of seminars and conference proceedings across many countries. In addition to his written volumes, Sheikh Al-Gharbi has delivered his research into Sharia throughout numerous academic papers on financial transactions within Islamic jurisprudence.

Sheikh Al-Gharbi holds several degrees, including a Bachelor's from the Sharia Justice Institute in Oman in 1996, a Master's degree from Jordan University in 2002 and a PhD within the field of Islamic Sciences from Zaytouna University in Tunisia in 2010.

Profile of Management Team:

Dr. Jamil El Jaroudi (Chief Executive Officer) – Lebanese national with over 40 years business experience. Dr. Jaroudi started his gulf experience in the 1970s as a consultant with Booz Allen Hamilton, in the UAE and the Kingdom Of Saudi Arabia, after which he held various senior executive roles with Al Mawarid Group, Saudi Arabia. In 1996 he coestablished the Middle East Capital Group in Lebanon, the region's first merchant bank with a pan-Arab focus. Subsequent to this Dr. Jaroudi held senior positions with DMI Trust, Islamic Investment Company of the Gulf and Shamil Bank, and was involved in the establishment of Arab Finance Bank in Lebanon and most recently Elaf Bank in Bahrain, where he was the Chief Executive Officer. Dr. Jaroudi holds an MBA from the Ivy League school Columbia University, and a PhD in Finance from Kellogg School, Northwestern University, USA. Among other activities for NGOs and charitable organisations, he is a Board member of the Beirut Islamic University, and a member of the Board of Trustees of the Lebanese American University Institute of Family Businesses. Just recently, Dr. Jaroudi was nominated on the Governing Council of INCEIF, the Global University of Islamic Finance in Malaysia.

Dr. Ashraf bin Nabhan Al Nabhani (General Manager, Corporate Support) - Omani National; Dean of the College of Banking & Financial Studies, after having worked for several years in the Ministry of Finance & Economy and the Capital Market Authority; Has been on the Board of a number of newly established listed companies. He received his PhD in Financial Markets from the University of Cambridge in the UK.

Khalid Al Kayed (General Manager Finance) – Jordanian national, has 21 years of experience in the field of banking and finance. Prior to joining Bank Nizwa, Mr. Al Kayed worked for three years with Jordan Dubai Islamic Bank as the Deputy CEO – Chief of Finance. He started his career as a supervisor for Jordan National Bank in 1993 and moved on to challenging positions as Financial Controller with Jordan National Bank OBU Cyprus-Limassol. He held the position of Chief Financial Officer for three years in Standard Chartered Bank-Jordan. He holds an CMA (Certified Management Accounting) CFM (Certified financial Manager)

Helmi Izham Harun Rashid (Deputy General Manager Markets and Investments) – Malaysian national, has 19 years of experience working for prestigious banks in Malaysia and the Middle East. Prior to joining Bank Nizwa he was working with Elaf Bank in Bahrain where he held the position of General Manager of Treasury and Capital Markets for four years. He has held senior management positions with Bank Muamalat Malaysia Berhad, Standard Chartered Bank Malaysia Berhad and Commerce, International Merchant Bankers Bhd. During the first half of his career he held various positions in Investment Operations and Financial Markets.

Ahmed Abdullah Ahmed Abdullah, General Manager – Risk Management, (Resigned August 2014) – Jordanian national, has close to two decades of experience working in varied positions related to risk management and banking. He headed the Group Credit Risk department of Arab Bank for a period of15 years at the beginning of his career. He took on challenging positions in Central Bank of Libya – Gumhouria Bank and Jordan Dubai Islamic Bank where he served as the Chief Risk Officer and Deputy CEO.

Sohail Abbasi, DGM Corporate and Commercial Banking (Resigned June 2014) – Pakistani national, has over 31 years of experience in the field of Banking. His career in the banking industry began with UNB Abu Dhabi, where he was the Head of Corporate Banking. He moved on to a senior position as the VP and Senior Credit Officer at GIB Bahrain, VP and Regional Head Sharjah and Northern region for Mashreq Bank UAE. He was the Chief Investment Officer for Emirates Investment Group-UAE and moved on to become the Head of Corporate Banking at Warba Islamic Bank prior to joining Bank Nizwa.

Shantanu Ghosh (Deputy General Manager Operations) - Has over 34 years of working experience at banks. Mr. Ghosh was DGM Operations, Information Technology and E-channels in one of the leading bank in Oman. He worked as Head of Central Banking & Capital Markets in iGate Patni which is a provider of IT services & Business solutions and is a subsidiary of iGATE Corporation. Between 2001 and 2007 he was the Country Head for Retail Banking in India for ING Bank. Mr. Ghosh holds a Master in Economics and Post Graduate Diploma in International Trade.

Samira Redha Fadhlani, DGM Human Resource Department at the Bank till November 2014, has over 21 years of working experience. Mrs. Fadhlani held the position of Vice President at British Petroleum and Director of Human (Resources) and Admin in Oman Oil Marketing. She holds a Master in Business Administration.

Nasser bin Said Al Lamki (General Manager Internal Audit) - at the Bank, has over 20 years of banking experience; Mr. Lamki was Vice President of Audit in one of the leading Islamic Bank in Saudi Arabia. He holds ACCA qualification the Association of Chartered Certified Accountants.

Related Party Transaction

Details of related party transaction have been disclosed in the financial statements without any special rate or treatment for the SSB members.

Internal Control Review

The board gives great importance to maintaining a strong control environment and board review has covered all controls including financial, operational, compliance and risk management.

The board has established a management structure that clearly defines roles and responsibilities and reporting lines and has approved the policies.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete accurate and timely processing to transactions and the safeguarding of assets through policies and procedures manuals, desk performance instructions and other circulars

Auditors' Profile

The shareholders of the Company appointed KPMG as the Company's auditors for the year 2014. KPMG is a leading Audit, Tax and Advisory firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG in Oman employs more than 150 people, amongst whom are 4 Partners, 5 Directors and 20 Managers, including Omani nationals. KPMG is a global network of professional firms providing Audit, Tax and Advisory services. KPMG operates in 155 countries and has more than 162,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOGs). During the year 2014, KPMG billed an amount of RO 36,000 towards professional services rendered to the Company (RO 34,650 for audit and RO 1,350 for tax and other services)

Declarations

For the reporting year the board has conducted a review of the effectiveness of the Bank's internal control, policies and procedures; and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the regulatory and internal requirements.

Further, the Board of Directors confirms that there is no issue on going concern and that the Bank is able to continue its operations during the next financial year.

Sur Branch


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WE ARE
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WE ARE...

MANAGEMENT DISCUSSION & ANALYSIS REPORT

(For the financial period ended 31st December 2014)

The Management Discussion & Analysis Report is a detailed overview of Bank Nizwa's business for the second financial year which covers the periods from January 1 2014 to December 31 2014.

It focuses on the core segments of the business and discusses prospects and opportunities for the years ahead in the context of the prevailing macroeconomic environment and market penetration of Sharia-compliant products and services.

POISED FOR GROWTH

The Islamic finance sector in Oman witnessed unparalleled growth over the last two years. With two full-fledged Islamic banks and five Islamic windows, Sharia compliant banking assets accounted for 4.4% of Oman's total banking assets in 2014 and is projected to reach 10% by 2018. A key contributor to this unprecedented traction in the market has been the increased awareness on the benefits of Islamic banking amongst individuals and businesses alike; a responsibility Bank Nizwa has taken upon itself to continue to lead.

Bank Nizwa's financial performance this year demonstrated solid growth throughout its operation, reinforcing its leadership position within the sector. The Bank's customer financing portfolio, deposits, assets and operating income all reported substantial growth while net loss recorded a decrease. Bank Nizwa was able to gain the trust and confidence of customers by consistently delivering on its promise to offer high quality Islamic finance products and services, whilst investing in technology, human capital and network expansion.

We are redefining the banking experience in Oman by placing the customer at the centre of everything we do and making Islamic banking accessible and adaptable to the demands of growing markets and modern lifestyles.

COUNTRY'S ECONOMIC & BUSINESS ENVIRONMENT

The Sultanate of Oman has maintained steady progress towards achieving its long term strategy of economic diversification. The outlook for the future remains stable as the country continues to build its reputation as an attractive business and investment destination for a wide array of industries supported by a solid infrastructure and investor-friendly policies and procedures.

While the energy sector has been the main driver behind Oman's economic growth, other industries are playing a greater role in leading the way towards a diversified economy. The balance between oil and non-oil industries is becoming more sustainable. Non-oil exports have risen sharply with tourism and manufacturing gaining increased significance year upon year. Nonetheless, oil and gas remains centre stage, accounting for more than half of Oman's GDP and 85% of its government's revenue.

In the utilities sector, growing demand is expected to see the continued roll-out of new independent power and water plants. Oman has one of the region's most liberal approaches to investments in the sector, allowing private and foreign investors 100 per cent ownership of assets and generous take-off agreements. And this is indicative of one of Oman's great strengths – its increasingly attractive foreign investor appeal. The global climate in 2015 still contains downside risks, but Oman's stable economy is in a strong position to withstand them.

Based on the above and according to the statement of Ministry of Finance, Oman's economy is expected to expand by 5% in 2015, against an estimated 4.4% growth in GDP last year. Growth in non-oil activities is expected to reach 5.5%.

OUTLOOK FOR THE BANKING SECTOR

The outlook for the Banking sector remains stable, as it has been for years. The stable outlook primarily reflects expectations of stable economic conditions that will support any low levels of non-performing assets (NPAs) and project healthy levels of capitalisation and earnings. In addition, sound liquidity buffers, supported by a stable deposit funding base also underpin the stable outlook.

These supportive factors will continue to offset to a great extent shocks from drop in oil prices and risks stemming from high borrower concentrations, opacity surrounding local conglomerates and real-estate sector exposures. In addition to this, the government continues its diversification strategies, heavily investing in infrastructure developments across the country which will further support the Country's financial system. Omani banks will continue maintaining sound capital buffers with high credit-loss reserves; thereby having sizable buffers to absorb unexpected losses. Overall banking system is well-positioned, liquid over the outlook period for sustained growth and will benefit from the Sultanate's systematic shift toward a more diversified economy.

NATURE OF BUSINESS OF BANK NIZWA

Bank Nizwa is a Sharia-based financial institution in the business of both intermediation and participation that would lead to economic, social and ethical wellbeing of the society. The Bank's overall service proposition is divided into Personal Banking, Corporate & Commercial Banking and Financial Markets & Investments with customers being served through multiple channels including branches, direct sales, call centre, ATM/ CCDMs and internet banking.

Constituting the largest segment of the business, Retail Banking Division, serves the financial needs of individuals across the country providing them with the necessary means to lead financially secured lifestyles through innovative Sharia compliant products including savings and current and Investment deposits accounts as well as home, personal and auto finance solutions.

The Investment Banking and Corporate Banking Division serves the needs of the government sector, government-owned entities, corporate and commercial clients as well as small-and-medium-enterprises (SMEs). Going forward, the Bank aims to launch a dedicated division for SMEs to be managed as a separate business line.

Part of Wholesale Banking, the Markets & Investments division helps customers reach their personal and business goals. Based on a Mudaraba Investment between the Bank and the customer, this account helps grow investments in OMR & USD at highly competitive profit rates.

In 2014, Bank Nizwa continued growing and improving on its product portfolio, introducing market leading products such as Oman's first Sharia compliant ladies banking, which was specially designed to meet the professional and personal needs of today's modern Omani woman. The Bank aspires to be the most technologically-connected Bank and a trusted financial advisor to its customers.

CRITICAL OBJECTIVES ACCOMPLISHED

In its second year of operations, the Bank had identified four key objectives to achieve throughout the year. They were:

1. Build a Strong Sharia-Compliant Product Portfolio: Supported by our Sharia Supervisory Board, we have ensured that all our products and services are in full-compliance with Sharia principles and are guided by the Islamic Banking Regulatory framework issued by the Central Bank of Oman, as well as the Sharia standards issued by the Auditing and Accounting Organisation for Islamic Financial Institutions in Oman.

2. Recruit, Train and Develop Employees Capacities on Sharia Financial Services: The Bank continued its drive to recruit professional and talented employees and enhance their knowledge of Sharia financial services through extensive training opportunities and on-the-job coaching and mentoring.

3. Processes and Technology: Continue building on our strong start with the introduction by leading several market firsts initiatives including instant cheque book and card issuance as well as our ability to open accounts for our customers by reading the data from the national identity cards, 2014 saw us focusing on improving our processes and automation to ensure customer service levels remain consistently high.

4. Customer Segments, Products, and Services: The Bank continued engaging with potential customers across various segments, raising awareness on the benefits of Islamic banking by showcasing its Sharia compliant innovative products and services. A key achievement in 2014 was the launch of Ladies Banking which was well received and appreciated by our existing female customer base.

KEY DEVELOPMENTS IN CORE SEGMENTS

Retail Banking

The Retail Banking Division has been continuously working towards redefining the banking experience in Oman by providing customers innovative products and services underpinned by responsive customer care and technologically advanced solutions to meet today's dynamic requirements. This approach has brought about positive change in Oman's retail banking space, prompting other institutions to re-examine their product and service offerings.

During 2014, Retail Banking consolidated its position as the leading Islamic Bank in Oman by more than doubling its account base from approximately 14,000 to over 32,000 with a 239% increase in deposits from OMR 28 million to more than OMR 67 million. The Bank also expanded its branch network with the opening of new branches in Sur, Samail and Barka, bringing its total retail footprint to 10 branches in geographically-strategic locations across Oman to not only get closer to customers but also gain in-depth understanding of their needs. Customers continue to enjoy free transactions across the entire national ATM network. Internationally, customers are able to use their Debit Card at any ATM or Point-of-Sale which is part of the MasterCard or Visa network.

In addition to depository and investment products and payment solutions such as debit cards, the Bank offers financing options to help customers acquire automobiles, houses and other needs according to their lifestyle and personal aspirations.

Customers interact with the Bank through four distinct channels which include strategically located branches, a direct sales team, a state-of-the-art Contact Center and Internet banking. Each of the Bank's branches is fitted with the latest Automated Teller Machines (ATMs) and Cash & Cheque Deposit Machines (CCDMs). In 2015, the Bank aims to further expand its network and customer-base through value-added services and offering a rewarding and enriching experience.

Wholesale Banking

The Wholesale Banking Division of the Bank has four business lines (Corporate & Commercial Banking; Global Markets; Investment Banking; International Banking) designed to serve the varied needs of customers in line with Bank Nizwa's founding principles.

Corporate & Commercial Banking

Corporate & Commercial Banking has made significant strides during the year in review - backed by new Sharia-compliant products that meet the local stringent criteria requirements - which saw substantial growth in both facilities approved as well as amount of financing assets booked, particularly in the second half of 2014. Despite anticipated tougher market conditions and falling oil prices, this growth trajectory is expected to continue in 2015 which will be aided by several new products in the pipeline. To complement the previously-approved products such as Ijara and Murabaha, the Bank also introduced the first-ever lease and sub-lease financing combination structure in 2014 for a customer where the asset-base was insufficient to back normal Ijara-finance.

The Bank also piloted the concept of Wakala Bel Istithmaar working capital facilities to a select number of customers that greatly helped in attracting a new customer base. Corporate & Commercial Banking will continue to expand and invest in resources to continuously improve and build its capabilities to meet the ever-growing needs of corporate and commercial customers and become their business partner of choice. As such, the Bank will launch a separate and dedicated Project Finance team in 2015 to offer specialised products catered to the growth the Sultanate is undergoing. The Bank will also have dedicated Relationship Managers for Salalah and Sohar, as well as provide greater support to branches located outside Muscat.

Corporate & Commercial Banking is expected to underpin the Bank's main asset growth in 2015.

Global Markets (Treasury)

The main function of Global Markets during the early days of the Bank was to mainly manage the excess liquidity coming from capital funds. Through an exemption by CBO, Global Markets has managed to extensively deploy the excess liquidity into select Islamic banks mainly in the region, as well as a Sukuk portfolio, which mostly consist of investment grade sovereigns and financial institutions. The exemption ended at the end of the year in review and the Bank is in full compliance of regular CBO regulations. It is important to note that the exemption has allowed Global Markets to significantly contribute towards supplementing the Bank's income while asset growth gains traction. As a result of the tremendous growth in assets booked, both from Retail and Corporate, Global Markets has focused on managing the Bank's funding and liquidity and striking the right balance to achieve an optimal balance sheet structure as well as market risk exposures. The success is evident by the steady growth of profit-sharing for Unrestricted Account Holders throughout 2014.

Investment Banking

In addition to a Commercial Banking license (Islamic), Bank Nizwa has Investment Banking license from CBO and Capital Market Authority (CMA). The current range of investment banking activities include Issue Management, Managing Investment Funds and Issuing Structured Instruments. The Bank is in the process of divesting some of its investments made earlier while also looking for new opportunities for expansion in 2015. At the end of the year in review, Investment Banking secured several advisory mandates as well as auxiliary services with results expected to reflect in the coming year. The Bank also bid for the first ever Omani sovereign Sukuk in 2014 in partnership with majority of other local Islamic banking windows and a financial institution.

International Banking

Despite the relative short history of the Bank, International Banking has managed to acquire credit lines from international banks to support the growing needs of the Bank. However, limits need to be continuously expanded for both the Bank and its customers. International Banking has explored and identified potential new relationships during the year in review and will focus on materialising them in 2015. Trade Finance services were also consolidated under International Banking during the year in review and positive results are beginning to show with a much-improved non-funded income contribution for the Bank. The growth contribution is expected to be in-line with the general growth of financing assets in 2015.

Capital Structure

The Bank is well capitalized and exceeds the minimum requirements as set by CBO. The Bank will continue to maintain the required regulatory capital on or above the desired levels either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

Currently the Bank does not have any requirement to raise any additional capital through any of the possible avenues available for liquidity or capitalization ratio purposes.

Risk Management

The Bank is inherently exposed to various types of risks in carrying out its business activities. Since inception, the Bank has exerted dedicated efforts to build sound and strong Risk Governance and spread the risk-based decision making principles across all levels of the organisation. Today, it has successfully built a robust and disciplined approach to managing risk and reward to assure that the Bank is well positioned to achieve its strategic objectives and to safeguard the interests of all stakeholders.

The Bank's primary responsibility of managing risk lies with the Board of Directors (BOD) who has formed an independent Board-level committee: Board Governance, Risk and Compliance Committee (BGRCC). The BGRCC is further supported by an independent Risk Management Group (RMG) that reports to the BOD through BGRCC.

As part of Risk Governance, Senior Management Committees were established within the Bank to manage the overall level of each risk type. This includes: the Assets and Liability Committee (ALCO), the Credit and Investment Committee (CIC) and the IT Steering Committee (ITSC). A well-defined governance structure is implemented where authority levels are clearly defined for manual and system based activities and is approved by the BOD while periodic audits and examinations by the internal auditors ensure that the culture of risk is embedded throughout the business divisions which in turn is supported by a rigorous set of checks and balances.

During the period in review, the Bank developed a 'Risk Appetite and Strategy' statement that put forth high-level metrics to achieve the Bank's strategic objectives while maintaining a risk profile at an acceptable level. In addition, the Bank also established a policy for Business Continuity which is currently under review and approval by the BOD which was put to the test during a drill in 2014.

As part of the Bank's continuous improvement initiative, the Bank reviewed existing approved risk policies and attuned them to changes in the regulatory and economic environment. Moreover, the Bank developed and implemented tools for Retail Credit decisions and Auto Finance which reduced substantial turn-around-time in application processing. For corporate credit, the Bank issued Request-for-Proposals for internal risk rating solutions but is now considering developing the model internally.

At management level, a set of committees which includes the Credit and Investment Committee and Asset Liability Management Committee monitor, measure and recommend the risk acceptance criteria and the level of risk acceptance.

A critical component of risk management is liquidity risk. Therefore, the Bank developed policies and monitoring tools that enable management to assess liquidity gaps through a cash flow and static approach, reserve against deposits, lending ratio, mitigation of liquidity risk and contingency measures. During the period in review, the Bank initiated the implementation of Basel III Liquidity and Capital Standards to meet regulatory requirements and international best practices.

A risk that is inherent in the Bank's daily operations is defined as 'Operational Risk'. To minimise this risk, an Operational Risk Management Policy was adopted and critical controls were implemented at all levels of the organisation. During the period in review, the Bank also developed a 'Risk and Control Self-Assessment' tool to capture and assess all key processes and controls to address operational risks within various businesses and support functions.

The Bank's disciplined approach to managing risk is integral to building the balance sheet, serving customers with the highest levels of quality, trust and transparency and maintaining a positive image and reputation in the marketplace. The Bank continues to build on its robust risk management foundation through a steadfast focus on continuous improvement and benchmarking against international best practices while enhancing the internal risk management infrastructure, processes and capabilities.

Raising Awareness

As the first Islamic bank in the Sultanate, Bank Nizwa has taken it upon itself to become the go-to-reference and ambassador for Islamic Finance in Oman. The bank participated in a number of initiatives throughout the year in review to enhance and elevate the awareness and understanding of Islamic finance across various segments of the society while developing future leaders who can advance the industry forward in the years ahead. Bank Nizwa became the first Islamic bank in Oman to conduct a specialised workshop for Islamic Studies Secondary School teachers in collaboration with the Ministry of Education and continued to host various open-sessions at various colleges and universities across the Sultanate. Another first, the Bank launched the "Islamic Finance Knowledge Forum" which brought prominent international Islamic finance experts to Oman and aimed to create a platform for discussing the future of Islamic finance in the Sultanate.

The Bank continuously utilises various communication platforms to ensure it raises awareness on Islamic finance among a multitude of audiences. These include the Bank's social media channels in addition to a strategic partnership with Oman TV to air a one-time program on Islamic Finance and a series of advertisements during Ramadan. The Bank also collaborated with Al Watan newspaper to publish a monthly column on Sharia compliant banking products and services.

Corporate Social Responsibility

Bank Nizwa aims to play a pioneering role in supporting social, economic, and industry-related activities through strategic collaborations with various organisations and entities in Oman. In an effort to continue its support and endorsement of Islamic values, Bank Nizwa partnered with the Ministry of Endowment and Religious Affairs to support a Zakat campaign during the holy month of Ramadan. The bank also offered customers a chance to pay Zakat by depositing cash or regularly transferring directly into an account allocated for the Ministry of Endowment and Religious Affairs. This tie-up offered Bank Nizwa customers a convenient, secure and seamless service to meet their religious obligations.

The Bank's commitment to giving back to the community is demonstrated by its employees through the establishment of a Volunteer Group called "Masoliyati" to instil values of compassion, responsibility and community spirit. The Group has successfully conducted several volunteer projects including an Iftar Sa'em outreach program across more than 10 mosques during the month of Ramadan, beach clean-ups to preserve and protect Oman's picturesque coastline in addition to a blood donation drive.

Corporate stewardship has and will remain to be an integral component of the Bank's modus operandi. In 2015, Bank Nizwa will continue its efforts by raising awareness on Islamic Finance through various learning programmes at key educational institutions and collaborations with various organisations to reinforce the beliefs and practices of social responsibility.

Marketing

During the year in review, the Bank's marketing activities also centred on spreading knowledge on Islamic banking and the products and services available, as an alternative to conventional banking. This has provided a strong communications base which will continue to be built on in 2015.

Case in point is the Bank's "Roadshow" series which is an integral part of its efforts to get closer to customers, communities and individuals across the length and breadth of Oman, empowering them with the knowledge and understanding of the benefit of Sharia compliant solutions while presenting new, untapped opportunities to lead financially secure lifestyles. This enabled the Bank to deliver on its promise to the people of Oman - to make Islamic banking accessible to everyone. The roadshows will continue to be a key engagement tool used to reach out to various publics across Oman.

Awards & Accolades

The Bank's frontrunner position in the industry continues to be recognised by a number of awards and accolades which include the "Best Bank in Oman" at the Islamic Finance News (IFN) Awards and the "Best Financial Institution in Oman" at the London Sukuk Summit Awards. In addition, Bank Nizwa's CEO was named "Islamic Finance Personality of the Year" at the Global Islamic Finance Awards in November 2014.

Sharia Process

Strict compliance to Sharia principles and standards prescribed within the Sultanate are inherently built into the Banks' products and services by following a framework - comprised of five key elements listed below - that sets the standards and practices allowed and/or monitors and ensures compliance to these standards and practices:

1. Islamic Banking Regulatory Framework (IBRF): A 'rule book' that sets guidelines on Sharia concepts which are permitted in Oman;
2. AAOIFI Standards: Sharia, accounting and governance standards as published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and mandated by CBO;
3. Sharia Supervisory Board (SSB): A group of well-respected Omani and International Sharia scholars who review and provide final approval on all products and related processes along with overall supervision and governance to ensure that Bank Nizwa is Sharia compliant at all times. The Bank's SSB consists of Sheikh Mohammad Taqi Al-Usmani (Chairman), Sheikh Dr. Abdul-Sattar Abou-Ghuddah (Deputy Chairman), Sheikh Dr. Mohammad Bin Rashid Al-Gharbi (Member), and Sheikh Ibrahim Bin Nasser Al-Sawwafi (Member). The full SSB meets on a quarterly basis and to allow for more frequent meetings, the Bank's SSB has established a Sharia Executive Committee which meets on a monthly basis. The Sharia Executive Committee comprises of Sheikh Al-Gharbi and Sheikh Al-Sawwafi.
4. Sharia Compliance & Audit Function: A dedicated function within the Bank that reports directly to the Bank's SSB, staffed with highly experienced professionals who provide overall guidance and support.
5. External Sharia Audit: As required by the IBRF, the Bank appoints an independent and qualified external Sharia Auditor to audit the activities of the Bank on an annual basis.

Moreover, to ensure that all relevant members of management and staff have sufficient working knowledge of the Sharia, a major focus continues to be on Sharia training so that these principals and teachings are understood, celebrated and practiced. Sharia non-compliance is a primary risk for the Bank and its management is a critical target for all employees.

Human Resources

Employees are the driving force behind the Bank's success and efforts were centred on advancing their capacities and capabilities to become the future leaders of tomorrow. As a result, the Bank maintained sustained level of strong performance. In addition, a "Succession Planning" program was initiated with the aim of preparing and developing the skills of a selected group of high-potential employees to fill key positions within the organisation.

In 2014, the Bank initiated a Human Resources Management System (HRMS) which includes modules related to recruitment, self-service, management and training of staff, performance management and evaluation, compensation and benefits. The HRMS system is expected to be fully launched in the first quarter of 2015.

Recruitment

The Bank aims to be a leading institution in attracting the best and brightest talent in the local market by hiring exceptional fresh graduates that demonstrate great promise as well as attracting highly qualified and experienced employees with notable industry experience. To this end, the Bank implements precise and clear recruiting policies based on levels of educational and professional qualifications and the suitability of the specialisation for vacant positions. Similarly, the Bank is fully committed to retaining key talents and Omanisation which increased to 86% during 2014.

Training & Development

Training is a vital component for preparing and equipping employees with the necessary skillsets to carry out various Islamic Banking activities and improve quality of service to customers. Therefore, training was a top priority for the Human Resources Department which facilitated and managed more than 500 training programmes in 2014 alone for employees across all departments and branches in various fields of Islamic Banking, customer service and capacity development to promote innovative and forward thinking.

The Bank also worked on strengthening an internal culture of learning and self-development through regularly sending a number of employees to obtain academic and professional qualifications from renowned local and international academic institutions and training centres.

Information Technology

With the aim of becoming a premier domestic financial services enterprise in providing superior products and services of high quality through innovation, technology and lifelong customer relationships, the Bank with its existing state-of-the-art and robust IT systems refocusing on providing maximum reliability and availability of information and systems by creating a highly secure environment with advanced electronic delivery channel features and services that are available in today's fast growing world.

During the year in review, the Information Technology department primarily focused on improving e-channels services and expanding customer delivery systems to provide customers with multiple alternative banking channels such as ATMs, CCDMs, Internet Banking, Mobile Banking and Call Centre to enrich the overall experience with the latest generation technology. Bank Nizwa's Internet Banking and Mobile Banking solutions conveniently and securely enable customer's to conduct their banking transactions, generate their full account statements, transfer funds, open accounts and request cheque books in real-time while on the move. Interactive Voice Response (IVR) services on these channels were also upgraded.

Going Forward

The Bank will continue its growth journey as demonstrated by performance over the past two years in particular and there are no limits to our ambition and potential. With solid momentum generated in 2014 and stable macro-economic conditions in the Sultanate, we are confident of strong financial performance in 2015 while remain prudent in all our business decisions.

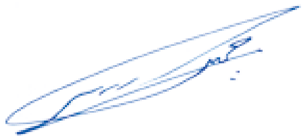
In 2015, we will further accelerate our performance and sharpen our focus on five key areas which represent our strategic objectives. First and foremost is Sharia compliance and continued efforts to ensure that Sharia principles, the values inspired by these principles are entwined in everything that the Bank does. The most visible element of this will be the continued effort to enhance and widen the product offerings to meet the modern-day needs and requirements of customers.

Second, the Bank will continue focusing on customer centricity and sustainability by leveraging customer-focused strategy which will drive stable growth and will continue offering Sharia compliant product and service propositions aiming to provide the very best value to its growing customer base. This will be coupled with increased focus on sales and customer service.

Third, the Bank will ensure safety of our depositors' money on back of solid capital base and by practicing prudent financing and investment policies.

Fourth, the Bank will also continue focusing on productivity to drive performance and shareholder value by leveraging its well-positioned strategic business and infrastructure to deliver on our priorities in the coming years, with a number of strengths for continued sustainable growth.

Fifth, the focus on building a strong, committed and passionate workforce will continue. In 2015 and beyond the Bank will continue to seek the very best talent in Oman and dedicate its resources and efforts to train and develop their capabilities to create professional Islamic bankers of tomorrow.



Dr. Jamil El Jaroudi

Chief Executive Officer

Salalah Branch


07


01
02


أول بنك إسلامي في سلطنة عمان
Oman's First Islamic Bank

SHARIA SUPERVISORY BOARD REPORT

Praise is to Allah Almighty, and prayers on Prophet Muhammad and his family and followers;

To the Shareholders of Bank Nizwa,

Assalam Alaykum Wa Rahmatul-Allah,

In compliance with the letter of appointment, we are required to submit the following report for the operations of Bank Nizwa during the year 2014 for the period from 01/01/2014 to 31/12/2014.

We have reviewed the applied principles and contracts relating to the transactions and applications introduced by Bank Nizwa during the mentioned period. We have also conducted our required review to form an opinion as to whether Bank Nizwa has complied with Sharia rules and principles, and also with specific Sharia rulings, resolutions and guidelines issued by the Sharia Supervisory Board.

We conducted our review directly, or through the internal Sharia Compliance Department, which included examining, on sample basis of each type of transactions, the relevant documentation and procedures adopted by Bank Nizwa. We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to establish reasonable assurance that Bank Nizwa has not violated Islamic Sharia rules and principles.

Our responsibility is restricted to provide an independent opinion, based on our review of the operations of Bank Nizwa, and report to you. The management at Bank Nizwa is responsible to ensure that Bank Nizwa conducts its business in accordance with Islamic Sharia rules and principles.

Based on the above, the Sharia Supervisory Board discloses the following opinion:

1) the contracts, transactions and operations concluded by Bank Nizwa during the year 2014 for the period from 01/01/2014 to 31/12/2014, which we have reviewed, are in compliance with Islamic Sharia rules and principles;

2) the allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Sharia Supervisory Board and in accordance with Islamic Sharia rules and principles;

3) all earnings which have been realised from sources or by means not in compliance to Islamic Sharia rules have been disbursed to the charity account under the supervision and guidelines of the Sharia Supervisory Board.

4) calculation and disbursing of Zakat is the responsibility of Shareholders.

We pray to Allah the Almighty to grant us all, success and abiding by Sharia.

Sheikh Mohammad Taqi Usmani
Chairman of Sharia Supervisory Board

Dr. Abdul Sattar Abou Ghuddah
Vice Chairman Sharia Supervisory Board

Dr. Sheikh Mohammad Bin Rashed Al-Gharbi
Sharia Supervisory Board member

Sheikh Ibrahim Bin Nasser Al-Sawwafi
Sharia Supervisory Board member

Place and Date: Muscat, 22 Rabie Awwal, 1436H; Corresponding to January 13, 2015.

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK NIZWA SAOG

Report on the financial statements

We have audited the financial statements of Bank Nizwa SAOG ("the Bank"), set out on pages 40 to 82 which comprise the statement of financial position as at 31 December 2014, and statements of income, cash flows, changes in owner's equity and sources and uses of charity fund for the year ended 31 December 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and to operate in accordance with Shari'a rules and principles determined by the Shari'a Supervisory Board of the Bank and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by AAOIFI and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other legal and regulatory requirements

In our opinion, the financial statements of the Bank as at and for the year ended 31 December 2014, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

In our opinion, the Bank is in a development stage and its achieving profitability depends on its ability to obtain a reasonable market share.

26 February 2015

Khalid Masud Ansari

C.R. No. 1/30936/6

STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

	Notes	2014 RO	2013 RO
Assets			
Cash and balances with Central Bank of Oman	4	**25,091,759**	27,667,988
Due from banks and financial institutions	5	**2,928,667**	1,851,978
Inter-bank Wakala investments	6	**55,710,675**	52,290,750
Sales receivables – net	7	**51,151,947**	16,893,713
Financial assets at fair value through equity	8	**2,439,507**	52,704,110
Financial assets at amortized cost	9	**7,000,000**	7,000,000
Investment in Ijarah asset	10	**7,353,240**	-
Investment in real estate	11	**14,175,000**	14,175,000
Ijara Muntahia Bittamleek – net	12	**59,339,054**	13,699,807
Wakala Bil Istithmar - Net	13	**17,671,500**	-
Property and equipment – net	14	**4,478,525**	4,394,651
Intangible assets	15	**1,910,394**	2,301,271
Other assets	16	**3,855,663**	3,017,660
Total assets		**253,105,931**	195,996,928
Liabilities, equity of unrestricted investment account holders and owners' equity			
Liabilities			
Inter-bank Wakala	17	**16,901,500**	25,179,000
Customer Wakala		**2,750,000**	1,200,000
Customer accounts	18	**48,690,180**	16,894,496
Other liabilities	19	**10,304,258**	3,653,047
Total liabilities		**78,645,938**	46,926,543
Equity of unrestricted investment accountholders	20	**42,416,731**	9,958,485
Owners' equity			
Paid-up capital	21	**150,000,000**	150,000,000
Share premium	22	**2,091,192**	2,091,192
Investment fair value reserve	23	**(34,389)**	(674,512)
Accumulated losses		**(20,013,541)**	(12,304,780)
Total owners' equity		**132,043,262**	139,111,900
Total liabilities, equity of unrestricted investment accountholders and owners' equity		**253,105,931**	195,996,928
Net assets per share (RO)	34	**0.088**	0.093
Contingent liabilities and commitments	24	**51,223,406**	5,364,926

The financial statements on pages 40 to 82 were approved by the Board of Directors on 26 February 2015 and signed on their behalf by

Amjad Bin Mohammed AlBusaidi
Chairman

Ahmed Bin Saif Alrawahi
Vice Chairman

Jamil El Jaroudi
Chief Executive Officer

Notes to the financial statements from page 45 to 82 form an integral part of these financial statements. Report of the Auditors – page 39.

STATEMENT OF INCOME

for the year ended 31 December 2014

	Notes	31 December 2014 RO	Period ended 15 August 2012 to 31 December 2013 RO
Sales receivables revenue	25	**1,838,004**	357,140
Ijara assets & Ijara Muntahia Bittamleek revenue	26	**1,627,053**	210,121
Wakala Bil Istethmar		**111,615**	-
Profit from inter-bank Wakala investments	27	**898,441**	720,081
Profit from financial assets at fair value through equity	28	**1,061,969**	886,533
Income from jointly financed investments and receivables		**5,537,082**	2,173,875
Less:			
Return on unrestricted investment accountholders before the Bank's share as a Mudarib	29	**355,624**	43,515
Bank's share as a Mudarib		**(112,015)**	(19,383)
Return on unrestricted investment accountholders		**(243,609)**	(24,132)
Profit paid on Wakala		**(182,729)**	(36,731)
Bank's share in income from investment as a Mudarib and Rabul Maal		**5,110,744**	2,113,012
Bank's income from its own investments and financing	30	**1,620,134**	662,605
Revenue from banking services	31	**747,084**	68,527
Foreign exchange gain – net		**39,757**	12,477
Total revenues		**7,517,719**	2,856,621
Pre-incorporation expenses		-	748,862
Pre-operating expenses		-	3,172,257
Operating expenses	32	**13,245,015**	11,083,168
General provision	6,7,10,12&13	**1,493,725**	429,726
Depreciation and amortization	14&15	**1,524,447**	1,419,772
Total expenses		**16,263,187**	16,853,785
Loss before tax		**(8,745,468)**	(13,997,164)
Deferred income tax	33	**1,036,707**	1,692,384
Net loss after tax		**(7,708,761)**	(12,304,780)
Loss per share basic and diluted – (RO)	**35**	**(0.005)**	(0.008)

Notes to the financial statements from page 45 to 82 form an integral part of these financial statements.
Report of the Auditors – page 39.

STATEMENT OF CHANGES IN OWNERS' EQUITY

for the year ended 31 December 2014

	Paid up capital	Share premium	Investment fair value reserve	Accumulated losses	Total
	RO	RO	RO	RO	RO
Balance as at 1 January 2014	**150,000,000**	**2,091,192**	**(674,512)**	**(12,304,780)**	**139,111,900**
Investment fair value reserve (net of tax)	**-**	**-**	**640,123**	**-**	**640,123**
Net loss for the year	**-**	**-**	**-**	**(7,708,761)**	**(7,708,761)**
Balance as at 31 December 2014	**150,000,000**	**2,091,192**	**(34,389)**	**(20,013,541)**	**132,043,262**

	Paid up capital	Share premium	Investment fair value reserve	Accumulated losses	Total
	RO	RO	RO	RO	RO
Issue of share capital	150,000,000	3,000,000	-	-	153,000,000
Issue expenses	-	(908,808)	-	-	(908,808)
Investment fair value reserve (net of tax)	-	-	(674,512)	-	(674,512)
Net loss for the period	-	-	-	(12,304,780)	(12,304,780)
Balance as at 31 December 2013	150,000,000	2,091,192	(674,512)	(12,304,780)	139,111,900

Notes to the financial statements from page 45 to 82 form an integral part of these financial statements.

Report of the Auditors – page 39.

STATEMENT OF CASH FLOWS

for the period ended 31 December 2014

	31 December 2014	Period ended 15 Aug 2012 to 31 Dec 2013
	RO	RO
Cash flows from operating activities		
Net loss before tax	**(8,745,468)**	(13,997,164)
Adjustments for:		
Depreciation and amortization	**1,524,447**	1,419,772
General provision	**1,493,725**	429,726
Other provision	**49,915**	-
Investment risk reserve	**10,764**	2,325
Profit equalization reserve	**121,824**	4,866
Cash flows used in operating activities before changes in operating assets and liabilities	**(5,544,793)**	(12,140,475)
Changes in operating assets and liabilities:		
Increase in sales receivables	**(34,943,856)**	(17,185,057)
Increase in Ijara Muntahia Bittamleek assets	**(46,100,250)**	(13,838,189)
Increase in Ijara Assets	**(7,427,515)**	-
Decrease/ (increase) in other assets	**59,492**	(1,230,764)
Increase in customer accounts	**31,795,684**	16,894,496
Increase in capital deposit with CBO	**(45,997)**	(150,000)
Increase in other liabilities	**6,651,211**	3,653,047
Net cash used in operating activities	**(55,556,024)**	(23,996,942)
Cash flows from investing activities		
Divestment/ (investment) in financial assets at fair value through equity	**51,008,741**	(53,491,707)
Investment in financial assets at amortized cost – net	**-**	(7,000,000)
Investment in real estate	**-**	(14,175,000)
Increase in Wakala Bil Istethmar	**(17,850,000)**	-
Purchase of intangibles assets	**(110,353)**	(2,686,943)
Purchase of property and equipment	**(1,107,091)**	(5,428,751)
Inter-bank Wakala investments	**(5,775,000)**	(9,817,500)
Net cash in from investing activities	**26,166,297**	(92,599,901)
Cash flows generated from financing activities		
Increase in unrestricted investment accountholders	**32,310,940**	9,969,867
Increase in customer Wakala	**1,550,000**	1,200,000
Issue of share capital including share premium	**-**	153,000,000
Issue expenses	**-**	(908,808)
Net cash generated from financing activities	**33,860,940**	163,261,059
Increase in cash and cash equivalents	**4,471,213**	46,664,216
Cash and cash equivalents at the beginning of the year/ period	**46,664,216**	-
Cash and cash equivalents at the end of the year/ period	**51,135,429**	46,664,216
Cash and balances with CBO	**25,091,759**	27,667,988
Capital deposit with CBO	**(195,997)**	(150,000)
Due from banks and financial institutions	**2,928,667**	1,851,978
Inter-bank Wakala investment	**40,212,500**	42,473,250
Inter-bank Wakala	**(16,901,500)**	(25,179,000)
Cash and cash equivalent for the purpose of cash flow statement	**51,135,429**	46,664,216

Notes to the financial statements from page 45 to 82 form an integral part of these financial statements. Report of the Auditors – page 39.

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 45 to 82 form an integral part of these financial statements.

Report of the Auditors – page 39.

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.

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 assess its performance and for which discrete financial information is available. The Bank's primary format for reporting segmental information is business segment, based upon management internal reporting structure. The Bank's main business segments are comprised of retail, corporate and treasury and investment banking.

3.23 Taxation

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.23 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.

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

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

8 Financial assets at fair value through equity

	Jointly-financed		Self-financed		Total	
	Cost 2014 RO	Fair value 2014 RO	Cost 2014 RO	Fair value 2014 RO	Cost 2014 RO	Fair value 2014 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 2013 RO	Fair value 2013 RO	Cost 2013 RO	Fair value 2013 RO	Cost 2013 RO	Fair value 2013 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 RO	2013 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 RO	2013 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.

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 RO	Self-financed RO	Total 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 RO	Self-financed RO	Total 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

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	138,382	-
Provision during the year/ period	461,003	138,382
Balance at 31 December	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

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

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.

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

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
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

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

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)

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
	RO	RO	RO
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
	RO	RO	RO
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	2013
	RO	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.

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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for the year ended 31 December 2014

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

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	Level 2	Level 3	Total
	RO	RO	RO	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	Level 2	Level 3	Total
	RO	RO	RO	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

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	Sharia'a Board	Senior management	Total
	RO	RO	RO	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	Sharia'a Board	Senior management	Total
	RO	RO	RO	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	Sharia Board	Senior management	Total
	RO	RO	RO	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	Sharia Board	Senior management	Total
	RO	RO	RO	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

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.

39 Financial risk management *(continued)*

Credit risk *(continued)*

The analysis of credit portfolio is given below:

(a) Geographical concentrations

31 December 2014	Assets: Due from banks & Interbank Wakala investment	Assets: Gross financing	Assets: Investments in sukuk & securities	Liabilities: Current, unrestricted IAH and customer Wakala	Liabilities: Interbank Wakala	Liabilities: Contingent liabilities and commitments
	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

31 December 2013	Assets: Due from banks & Interbank Wakala investment	Assets: Gross financing	Assets: Investments in sukuk & securities	Liabilities: Current, unrestricted IAH and customer Wakala	Liabilities: Interbank Wakala	Liabilities: Contingent liabilities and commitments
	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

39 Financial risk management *(continued)*

Credit risk *(continued)*

(b) Customer concentrations

	Assets			Liabilities		
31 December 2014	Due from banks & Interbank Wakala investment	Gross Financing	Investments in sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
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		
31 December 2013	Due from banks & Interbank Wakala investment	Gross Financing	Investments in sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
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	
31 December 2014	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
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

39 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations *(continued)*

	Assets			Liabilities	
31 December 2013	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
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:

31 December 2014	**Sultanate of Oman**	**Other countries**	**Total**
	RO	**RO**	**RO**
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**

39 Financial risk management *(continued)*

Credit risk *(continued)*

(e) Geographical distribution of exposures (continued)

31 December 2013	Sultanate of Oman	Other countries	Total
	RO	RO	RO
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:

31 December 2014	**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**
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**

31 December 2013	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
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

39 Financial risk management *(continued)*

Credit risk *(continued)*

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

31 December 2014	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
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

31 December 2013	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
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:

31 December 2014	Performing financing	Non-performing financing	General provisions held
	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

39 Financial risk management *(continued)*

Credit risk *(continued)*

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

31 December 2013	Performing financing	Non-performing financing	General provisions held
	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:

31 December 2014	Performing financing	Non-performing financing	General provisions held
	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**

31 December 2013	Performing financing	Non-performing financing	General provisions held
	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.

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.

39 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities

31 December 2014	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
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

39 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities (continued)

31 December 2013	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
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)

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

31 December 2014	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
	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	-	-

39 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk *(continued)*

Profit rate sensitivity gap (continued)

31 December 2013	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
	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.

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	2013
	RO	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.

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Report of factual findings to the Board of Directors of Bank Nizwa SAOG in respect of Basel II - Pillar III & Basel III related Disclosures

We have performed the procedures agreed with you and as prescribed in the Islamic Banking Regulatory Framework ("IBRF") issued by Central Bank of Oman ("CBO") under Circular No. IB 1 dated 18 December 2012 ("the Procedures") with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Bank Nizwa SAOG ("the Bank") set out on pages 1 to 41 as at and for the year ended 31 December 2014. The disclosures were prepared by the management in accordance with requirements of IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than Central Bank of Oman. This report relates only to the Bank's disclosures and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

26 February 2015

Khalid Masud Ansari

1. Overview and Introduction

In compliance with the Central Bank of Oman ("CBO") guidelines on implementing Basel II Capital Accord for all banks operating in Oman as of September 2006, and in light of Islamic Banking Regulatory Framework (IBRF), Bank Nizwa has developed its risk management techniques to assure adequate monitoring and managing its risks.

The Basel II Accord is based on three pillars as follows:

- **Pillar I** - defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk.

- **Pillar II** - addresses a bank's internal processes for assessing overall capital adequacy in relation to risks ("ICAAP"). Pillar II also introduces the Supervisory Review and Evaluation Process ("SREP"), which can be used as a tool to assess the internal capital adequacy of any organization.

- **Pillar III** - complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy. The aim of these disclosures is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution.

Pillar III disclosures include information about Bank Nizwa relating to our governance structure, capital structure, capital adequacy and requirements, risk management objectives and policies, and various supporting quantitative and qualitative disclosures along with a comparison with Dec 2013 financials (for period Aug 15, 2012 – Dec 31, 2013).

2. Scope of Application

2.1 Qualitative Disclosure

- The Bank was registered in the Sultanate of Oman as a public joint stock company 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 is not a part of any holding company or group and has no subsidiary.
- There is no single party holds 10% or more share in the Bank.
- Financial and regulatory reporting is being done on standalone basis hence no associated disclosures related to consolidation is required.

2.2 Quantitative Disclosure

Total Interest in Takaful Entities: The Bank holds 0.57% of Oman Takaful and does not have any control in the Company and accordingly it is not consolidated in any form.

3. Capital Structure

3.1 Qualitative Disclosure

- The Bank's regulatory capital is calculated as per the guidelines issued by CBO and it includes common shares capital. The Bank's authorized capital is OMR 300,000,000 and issued share capital is OMR 150,000,000 comprises 1,500,000,000 fully paid shares of RO 0.100 each. In accordance with Article 106 of the Omani Commercial Companies Law of 1974.

- The Bank has no other capital instruments or equity related instruments that are considered as part of its regulatory capital.

- Unrestricted Investment Accounts are defined under section Unrestricted Investment Accounts. These are not considered as part of the equity and will only affect Capital Adequacy Ratio calculation to reduce Risk Weighted Assets. However, the Bank is following conservative approach by not reducing Risk Weighted Assets.

- There is no minority interest, surplus capital from Takaful companies and has no shareholdings equal or exceeding 5% of total paid-up capital.

3.2 Quantitative Disclosure

The detailed breakdown of the capital structure of the Bank is as follows:

	2014	2013
	RO	RO
(a) 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 losses on financial assets at fair value through equity	**(43,458)**	(806,654)
Less: Intangible Assets, Including Losses, Cumulative Unrealized Losses Recognized Directly In Equity	**(1,910,394)**	(2,301,270)
Less: Deferred Tax Assets	**(2,729,091)**	(1,692,384)
Total Tier I capital	**127,394,708**	134,986,104
(b) 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
(c) Unrestricted Investment Account and Related Reserves		
Amount of unrestricted Investment Accountholder (IAH) Funds	**42,280,807**	9,969,867
Investment fair value reserve	**(3,855)**	(18,573)
Profit Equalization Reserve (PER)	**126,690**	4,866
Investment Risk Reserve (IRR)	**13,089**	2,325

4. Capital Adequacy

4.1 Qualitative Disclosure

- The primary objective of the Bank's capital management is to ensure that the Bank complies with regulatory capital requirements and maintains healthy capital ratios in order to support its business and to optimize shareholders' value.

- The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issuing sukuk etc.

- The capital structure is primarily made up of its paid-up capital, and including reserves. From a regulatory perspective, the significant amount of the capital is in Tier 1 form as defined by the CBO, i.e., most of the capital is of permanent nature.

- The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, future sources and uses of funds.

- To assess its capital adequacy requirements in accordance with CBO requirements, the Bank adopts the Standardised Approach for its Credit and Market Risk and the Basic Indicator Approach for its Operational Risk. In normal course of business, all assets are funded by common pool unless otherwise approved by ALCO in advance. The Bank's Asset Liability Committee (ALCO) decides on the participation ratio in advance for funding the common pool of assets. On quarterly basis, based on the financials, the assessment of Risk Weighted Assets is according to utilization of Unrestricted Investment Accountholder and shareholders' fund in funding assets through common pool.

4.2 Quantitative Disclosure

The ratio of equity to risk weighted assets, as formulated by the Basel II, for the year ended 31 December 2014 is 46.37% (Dec 2013:72.67%)

(a) Capital Requirements

	2014		2013	
	RO		RO	
	Risk Weighted Assets (RWA)	**Capital Requirement ***	Risk Weighted Assets (RWA)	Capital Requirement *
Credit Risk	**234,393,927**	**29,592,233**	94,326,525	11,319,183
Market Risk	**34,767,171**	**4,389,355**	86,670,649	10,400,478
Operational Risk	**9,727,237**	**1,228,064**	5,358,750	643,050
	-	-	-	-
Total	**278,888,335**	**35,209,652**	186,355,924	22,362,711

* Capital Requirement is taken as 12% of RWA for 2013 and 12.625% for 2014 as per CBO guidelines to achieve Basel III requirements.

(b) Capital Adequacy Ratio

	2014	2013
	RO	**RO**
Total Risk Weighted Assets (RWA)	**278,888,335**	186,355,924
Total Eligible Capital	**129,318,159**	135,415,830
Capital Adequacy Ratio	**46.37%**	72.67%

(c) Ratio of Total and Tier 1 Capital to Total RWA

	2014	2013
	RO	RO
Tier 1 Capital	**127,394,708**	134,986,104
Total Capital	**129,318,159**	135,415,830
Total RWA	**278,888,335**	186,355,924
Ratio of Total Capital	**46.37%**	72.67%
Ratio of Tier 1 Capital	**45.68%**	72.43%

(d) Ratio of Total Capital to Total Assets

	2014	2013
	RO	RO
Total Capital	**129,318,159**	135,415,830
Total Assets	**253,105,931**	195,996,928
Total Capital to Total Assets	**51.09%**	69.09%

(e) Disclosure of Capital Requirements according to different risk categories for each Sharia compliant financing contract

		2014		2013
	RO	**RO**	RO	RO
	Credit risk	**Market risk**	Credit risk	Market risk
Ijara Muntahia Bittamleek	**5,817,054**	-	7,049,958	-
Sales Receivables	**6,581,275**	-	17,175,305	-
Wakala Bil Istethmar	**9,014,250**	-	-	-
Letter of Guarantees	**1,394,132**	-	-	-
Letter of Credit	**813,169**	-	2,210,554	-
Bills for Collection	**1,069,517**	-	43,905	-

(f) Disclosure of Displaced Commercial Risk

The Bank is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Bank has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The related disclosure on Displaced Commercial Risk is given in Section 16 below.

5. Disclosures for Investment Accountholders (IAH)

5.1 Qualitative Disclosure

- The Bank offers Unrestricted Investment Accounts based on fully sharia compliant concept of Mudaraba.

- In Mudaraba, the Bank (Mudarib) manages Investment Account Funds (IAH) along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Sharia compliant investments opportunities. Such information is available for all customers at Bank's website, branches and call center.

- The Bank maintains necessary reserves as required by CBO.

- Any profits accrued out of the investment are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Investor (Rab-ul-Maal). Operating expenses incurred by the Bank are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the pool, as at that date, in the respective ratio of the Bank's and IAH's respective contribution to the fund.

- The investment profits are distributed between owners' equity and unrestricted investment accountholders as follows:

	2014	2013
	Percentage	**Percentage**
Unrestricted investment accounts 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.

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.

- IAH funds are managed according to Bank's approved policy and accordingly the Bank monitors the performance of the portfolio in order to achieve expected results. The prudential reserves have been established according to CBO and Sharia guidelines.

5.2 Quantitative Disclosure

The related disclosure of Unrestricted Investment Account is given below:

a) PER to PSIA Ratio

	2014	2013
	RO	RO
Amount of Total PER	**126,690**	4,866
Amount of PSIA by IAH	**42,280,807**	9,969,867
PER to PSIA Ratio	**0.3%**	0.05%

b) IRR to PSIA Ratio

	2014	2013
	RO	RO
Amount of Total IRR	**13,089**	2,325
Amount of PSIA by IAH	**42,280,807**	9,969,867
IRR to PSIA Ratio	**0.03%**	0.02%

c) Return on Assets (ROA)

	2014	2013
	RO	RO
Amount of Total Net Income (before distribution of profit to unrestricted IAH)	**5,537,082**	2,173,875
Total Amount of Assets	**253,105,931**	195,996,928
Return on Assets (ROA)	**2.19%**	1.11%

d) Return on Equity (ROE)

	2014	2013
	RO	RO
Amount of total net income (after distribution of profit to IAH)	**5,110,744**	2,113,012
Amount of shareholders' equity	**132,043,262**	139,111,900
Return on Assets (ROE)	**3.87%**	1.52%

e) Ratios of profit distributed to PSIA by type of IAH

As of reporting date the Bank has only Unrestricted Investment Accountholder and distributed profit amounting OMR 111,021 (Dec 2013: OMR 16,941) during the period to Investment Accountholders.

f) Ratios of financing to PSIA by type of IAH

As of reporting date, all jointly financing are funded by comingled pool which includes funds from Unrestricted Investment Accountholder and Shareholders.

Financing by type of contract	2014		2013	
	RO	%	RO	%
Sales Receivables	**60,660,602**	**41.58%**	19,817,621	58.88%
Ijarah Muntahia Bittamleek and Ijara Assets	**67,365,954**	**46.18%**	13,838,189	41.12%
Wakala Bil Istethmar	**17,850,000**	**12.24%**	-	0.00%
Total Financing	**145,876,556**	**100.00%**	33,655,810	100.00%

6. Unrestricted Mudaraba Investment Accounts

6.1 Qualitative Disclosure

- There is no major change in the investment strategies that affect the investment accounts to the reporting date.
- The Bank has single pool of comingled assets where the funds of investment accountholders funds are invested and income from which is allocated to such accounts.

The investment profits are distributed between equity shareholders and unrestricted investment accountholders is as follows:

	2014	2013
	Percentage	Percentage
Unrestricted investment accounts 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. The profit equalization reserve is deducted from total revenue before allocating the Mudarib share based on ALCO decisions.
- The Bank does not charge Investment Accountholders for operating expenses incurred.

6.2 Quantitative Disclosure

a) Total amount of unrestricted IAH funds with respect category

	2014	2013
Account type	RO	RO
Mudaraba Saving account	35,396,409	9,317,707
Mudaraba 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
Total	42,280,807	9,969,867

b) Share of profits earned by unrestricted IAH, before transfers to or from reserves (amount and as a percentage of funds invested)

	2014	2013
	RO	RO
Share of profits	243,609	24,132
Funds Invested	42,280,807	9,969,867
Ratio	0.58%	0.24%

c) Share of profits paid out to unrestricted IAH, after transfers to or from reserves (amount and as a percentage of funds invested)

	2014	2013
	RO	RO
Share of profits	111,021	16,941
Funds Invested	42,280,807	9,969,867
Ratio	0.26%	0.17%

d) **Movements on PER during the year**

During the reporting year there was no utilization of PER. However the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to OMR 121,824 (Dec 2013: OMR 4,866).

e) **Movements on IRR during the year**

During the reporting year there was no utilization of IRR. However the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to OMR 10,464 (Dec 2013: OMR 2,325).

f) **Disclosure of the utilization of PER and/or IRR during the period**

During the year, there are no instances of utilization from IRR or PER.

g) **Profits earned and profits paid out over the past three to five years (amounts and as a percentage of funds invested)**

The reporting year is the second year of Bank's operations. Hence there is no history of profit paid out.

h) **Amount of total administrative expenses charged to unrestricted IAH**

As per Bank's policy, the administration expenses are only charged on the Bank expenses.

i) **Average declared rate of return or profit rate on unrestricted PSIA by maturity (3-month, 6-month and 12-months)**

	2014	2013
Account type	**Average rate of return**	**Average rate of return**
Mudaraba Saving account	**0.28%**	0.30%
One month tenure	**0.52%**	0.56%
Three months tenure	**0.61%**	0.62%
Six months tenure	**0.79%**	0.84%
Nine months tenure	**0.84%**	0.82%
One year tenure	**1.12%**	0.97%

j) **Changes in asset allocation in the last six months**

There are no significant changes in the last six months of reporting date.

k) **Off-balance sheet exposures arising from investment decisions, such as commitments and contingencies**

	2014	2013
Off-balance sheet items	**RO**	**RO**
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
Total	**51,223,406**	5,364,926

l) **Disclosure of limits imposed on the amount that can be invested in any one type of asset**

The Bank does not have any restricted Investment Account as of reporting date, as such there are no limits imposed to be invested in any type of asset other than limits set in Bank's policy and CBO regulations.

7. Restricted Investment Accounts

The Bank does not have Restricted Investment Accounts product as of reporting date.

8. Retail Investor-Oriented Disclosures for Investment Accounts

The Bank offers Unrestricted Investment Accounts in OMR and USD only for maturity periods ranging from 1 month, 3 month, 6 month, 9 month and 12 month, based on fully Sharia compliant concept of Mudaraba. Profit is paid on average balance with a payout frequency of Monthly or Quarterly.

Following is the Product Structure of the Unrestricted Mudaraba Investment Account

8.1 Product Structure

Key Definitions and Concepts

Mudaraba – is a form of partnership where one party provides capital and the second party provides expertise and management skills. First party is referred to as Rab-ul-Maal (Investor) and the second party is referred to as the Mudarib (Investment Manager). Any profits accrued out of the joint business are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Rab-ul-Maal (Investor) except for losses arising from the negligence of Mudarib.

Mudarib – is the entrepreneur or investment manager in a Mudaraba, the Mudarib manages the investor's funds through a common pool of investments called Mudaraba Pool in return for a share of profits through Sharia compliant investments.

Rab-ul-Maal – is the provider of the capital or investor in an Islamic contract such as Mudaraba.

Structure of the Mudaraba Investment Deposit Product

The Bank's Mudaraba Investment Deposit product will be based on the Islamic contract of Mudaraba.

In case of Mudaraba Investment Deposit under Mudaraba arrangement, the customer becomes an Investor (Rab-ul-Maal), and the Bank becomes the Manager (Mudarib) of the funds invested by the customers. Besides acting as Mudarib, the Bank can also invest a share of its equity and other funds that the bank did not receive on Mudaraba basis in the Mudaraba Pool.

For the Bank's funds invested in the joint Mudaraba pool, the Bank will become a partner of the customer. The Bank will accept funds from Mudaraba Investment Deposit holders under a Mudaraba agreement and allocate the funds received from the customers, along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Sharia compliant investments opportunities.

The profit earned from the investment and financing activities, using funds from the unrestricted joint investment pool shall be distributed between the Depositors and the Bank based on the Profit Distribution Methodology as approved by the Sharia Supervisory Board (SSB). There is no sharing of profits from the Bank's fee-based banking.

The Bank does not guarantee the Investment amount to the Mudaraba Investment Deposit holders, and in case of a loss from the investment and financing activities; the loss shall be borne by the customers in proportion of their respective share in the investment pool. Customer's share of loss shall be deducted from the customer's investment amount except for losses arising from the negligence of Mudarib (the Bank)

All Mudaraba Investment Deposits shall be assigned weightages, based on the features of the Mudaraba Investment Deposit such as amount, currency, period of investment, profit payment options and other applicable features for the purpose of the profit calculation, in accordance with the Sharia rulings issued by the Sharia Supervisory Board (SSB)

The pooled funds will be subjected to deductions for all direct expenses and fees incurred to generate the assets in the specific pool.

The Bank will deduct its Mudarib Share from net profit after deducting its share as fund provider "Rab-ul-Mal".

The Bank may change the Mudarib Share and weightages for calculation of profit from time to time.

In case of loss, Mudaraba Investment Deposit holders will suffer the loss exactly according to the ratio of their investment; and in case of profit, the profit will be distributed on the basis of the share of investment in the investment pool on pre agreed terms

The minimum balance criterion for Mudaraba Investment Deposit is essential as a balance requirement to participate in the Mudaraba pool. Once the Investment Amount has been invested, Profit is calculated on monthly basis on the Investment amount of the customer and is payable as per the selected profit payout option by the customer (Monthly or Quarterly). The Mudarib share ratio is disclosed on Bank's website for information to the customers.

In the event the Rab-ul-Mal wishes to terminate the Investment prior to the agreed Investment Maturity Date, the Rab-ul-Mal shall notify in writing to the Mudarib. Mudarib would be entitled to apply the declared profit rates of the nearest corresponding period for the actual investment period completed, provided a minimum ONE month of investment has been completed to be eligible for profit payment. Deduction from Principal amount is allowed in case profit amount already paid to the Customer (in case of profit payout option other than on maturity) is higher than the applicable declared profit rates for the actual completed investment period. A maximum of 1% can further be reduced from the payable profit rates as per the CBO guidelines

The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:

Profit Equalization Reserve (PER)

This is to secure suitable and competitive return to the investors in case there are certain extra ordinary circumstances, depressing the return, which were un-anticipated by the investors. The disposition of the reserve amount will take place with the prior approval of the Sharia Board. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the investors with the approval of Sharia Board. This reserve only applies to Mudaraba accounts. In case the rate of return to the investors in a certain profit distribution period is substantially higher than the market rates, the Bank's Management may decide to deduct, after taking approval from ALCO, after deducting the profit share of the investment manager as Mudarib and Rab Al Maal, a portion of the common pool share of profit and transfer the same to the Profit Equalization Reserve (PER) up to a maximum limit of 60% of the increased value. In addition, transfer amount from/to PER and IRR subject to Asset Liability Committee (ALCO) approval.

Investment Risk Reserve (IRR)

This reserve is created out of the investors share of profit out of the Net Profit as per relevant guidelines (AAOIFI and/or CBO), post distribution of Mudarib share. This reserve is created to ensure certain level of cushion for the investment portfolio. The available balance in the reserve account shall be invested in the Common Pool and the profit earned by investing such balance will be added to the reserve account. This is to provide funds for unexpected and uncertain events taking place resulting in a decline in the value of the investments. This decline in value may be as a result of losses on financing or/and general reserves of the bank (as required by regulation) The disposition of the reserve amount will take place with the prior approval of the Sharia Board. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the investors with the approval of Sharia Board.

The Bank's ALCO decides in advance on the investment and asset allocation for IAH funds, including, with particular reference to unrestricted IAHs, the commingling of their funds with other funds managed by the Bank, the balance between shareholders' and IAH interests in terms of allocating investment funds and the risk-return characteristics of investments.

The Bank calculates the profit of the Mudaraba pool every month. Net Profit of the pool (after deduction of the direct costs/expenses attributable to the common pool) will be distributed amongst the investors and the shareholders, according to the following formula:

- (Average Investment amount * Aggregate weightages given to the shareholders and investors) for each category of investors.

- This aggregate weightages depends on: Amount and Profit Payout Frequency.

  Then the Mudarib's fee is deducted from each category of the investors' share of profit, giving them the Net Profit.

  Losses arising from receivables, financing and investment assets that started and ended in the same year will be treated as follows:

- Will be covered from the profits of the same year.

- If losses exceeded profits in the same year, they will be covered from Investment Risk Reserve.

- If there is no sufficient fund available in Investment Risk Reserve. Therefore, the losses will be covered directly from investor funds "Rab ul Mal share".

  Losses arising from receivables, financing and investment assets that initiated and continued from preceding years will be treated as follows:

- Will be covered from the Investment Risk Reserve.

- If there is no sufficient fund available in Investment Risk Reserve they will be covered from current revenues.

- If the current revenues are not sufficient. Therefore, the losses will be covered directly from investors' funds "Rabb ul Mal share".

  In addition to the above, in all cases the shareholders may forego of their share of profit or part of their equity in favor of the investors to cover such losses

9. Risk Management, Risk Exposures and Risk Mitigation

9.1 Qualitative Disclosure

- The Bank like all other major financial service organizations, is facing increasing demands to better understand its risks, both from management and from external stakeholders. Factors such as the global pace of change, resource constraints, product complexity and a growing demand for transparency, present a compelling case for stronger management of risk.

- The Bank's risk management and control principles shall continue to be implemented through a risk management and control framework. This framework shall comprise qualitative elements such as policies and authorities, and quantitative components including risk measurement methodologies and risk limits. In addition, the framework shall be dynamic and continuously adapted as Bank's businesses and the market environment evolve. It shall be based on:

  1. Strong managerial involvement throughout the entire organization, from the CEO down to operational field management teams,
  2. A firm structure of internal procedures and guidelines,
  3. Permanent supervision by an independent bodies to monitor risks and to enforce rules and procedures,
  4. Continuous training that helps to foster a disciplined and constructive culture of risk management and control.

  The overall objective of the Risk Management Framework is to improve shareholder value by optimizing risk and return. Specifically, Risk Management framework will:

  1. Establish clear accountability or ownership of risk
  2. Enable management to make decisions on a well-informed, risk-adjusted, and aggregated basis
  3. Enable Bank to manage negative "what-if" scenarios
  4. Improve understanding of interactions and inter-relationships between risks
  5. Establish an "in control" status of significant risks

- Bank's Risk Management program is geared towards helping the organization to manage risk. A common risk framework and supporting processes aid in the comprehensive and consistent understanding and decision-making for risk. Through an integrated framework, the Bank intends to ingrain a strong and consistent risk culture across the organization.

- The Risk Management framework structure is summarized below:

  The Risk Management framework has seven components: four that comprise the risk management decision phases and three that are support components.

The four risk management decision phases are:

Policy	Top down direction providing definition for risk appetite, governance and risk management principles.
Plan	Setting of risk strategy and objectives for business areas.
Execute	The core risk process of risk identification, assessment, mitigation and measurement and reporting.
Evaluate	Monitoring the program and evaluation of performance.

The three support components represent the tools and environment. They are:

Infrastructure	The tools, technology, staffing and policy to support the risk management process.
Internal Environment	The internal culture of the Bank and the tools to create and reinforce it.
External Environment	Factors outside the Bank that may create risk that need to be monitored or against which the Bank's Business plan may need to be evaluated.

- The Bank's primary responsibility of managing Risk lies with Board of Directors (BOD) who has formed independent dedicated Board level committee, Board Governance Risk and Compliance Committee (BGRCC). The BGRCC is supported by independent Risk Management Group (RMG) that reports to BOD through BGRCC.

- Part of the risk governance, Senior Management Committees were established in the Bank to manage the overall level of each risk type. This includes: Assets and Liability Committee (ALCO), Credit and Investment Committee (CIC) and IT Steering Committee (ITSC). All the decisions taken by ALCO and CIC are submitted to BGRCC for their review and similarly decisions taken by BGRCC are submitted to BOD.

- To Bank has policies for each risk type and accordingly risk is identified, assessed, monitored and reported to the Board and Senior Management. For this, a comprehensive integrated risk management report covering is generated on regular basis that highlights risk and performance of portfolio and is reported to Senior Management and Board with analysis for their review.

- The Bank has comprehensive Risk Management Policies approved by the Board for all the major risk types. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework in the Bank.

- The risk appetite statement identifies risk objectives, policies, strategies and risk governance both at the Board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses.

- Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents. In addition, the Bank is in the process of implementing various risk systems to help quantify the regulatory capital allocated to various portfolios.

- The Bank is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework summarises the spirit behind Basel II and III which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.

- For the purpose of Capital Adequacy calculation the exposure funded by IAH are taken completely in RWA and required capital as per CBO is allocated.

9.2 Quantitative Disclosure

(a) Disclosure of the range and measures of risks facing each restricted IAH fund, based on its specific investment policies

As of reporting date the Bank does not have restricted IAH funds.

(b) Disclosure of the treatment of assets financed by restricted IAH in the calculation of RWA for capital adequacy purposes

As of reporting date the Bank does not have restricted IAH funds.

(c) Disclosure of the treatment of assets financed by unrestricted IAH in the calculation of RWA for capital adequacy purposes.

As per the Islamic Banking Regulatory Framework (IBRF), 30% (alpha ratio) of assets financed by IAH are required to be deducted from Total Risk Weighted Assets (RWA). However, the Bank has not taken into the consideration this and following conservative approach by not deducting the same from RWA.

(d) Composition of financing by type of contract as a percentage of total financing.

Financing by type of contract	2014		2013	
	RO	%	RO	%
Sales Receivables	**60,660,602**	**41.58%**	19,817,621	58.88%
Ijarah Muntahia Bittamleek and Ijara Assets	**67,365,954**	**46.18%**	13,838,189	41.12%
Wakala Bil Istethmar	**17,850,000**	**12.24%**	-	0.00%
Total Gross Financing	**145,876,556**	**100.00%**	33,655,810	100.00%

(e) Percentage of financing for each category of counterparty to total financing

	2014 Gross Financing		2013 Gross Financing	
	RO	%	RO	%
Personal	**90,642,873**	**62.14%**	25,664,632	76.25%
Corporate	**55,233,683**	**37.86%**	7,991,178	23.74%
Government	**-**	**0%**	-	0%
Total	**145,876,556**	**100%**	33,655,810	100%

(f) Disclosure of the carrying amount of any assets pledged as collateral (excluding amounts pledged to the Central Bank) and the terms and conditions relating to each pledge.

As of reporting date, the Bank does not have any secured borrowing where Bank has pledge collateral to counterparty.

(g) The amount of any guarantees or pledges given by the Licensee and the conditions attached to those guarantees or pledges.

The Bank issued Performance, Advance Payment and Shipping Guarantee amounting OMR 11,042,630 (Dec 2013: OMR 10,700) as of reporting date.

10. 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 is primarily managed as per BOD approved Credit risk policy where proper assessment of inherent risks is carried out in credit proposals to ensure a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts.
- 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 measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. All credit decisions are taken as per the Bank's risk policies and CBO regulations and are monitored accordingly.
- The Bank relies on external ratings for rated corporate customers and counterparties. The Bank uses CBO approved External Credit Assessment Institutions i.e. Standard & Poor's, Fitch and Moody's to provide ratings for such counterparties. In case of unrated counterparties, the Bank assesses the credit risk on case to case basis as the Bank does not have internal rating system/mechanism. However, the Bank is developing internally an Obligor Risk Rating Model.
- For all Past Due receivables and Impaired Financial assets, Specific Provisions is created and for Performing Financing Assets, General Provision is created according to CBO regulation. Specific Provisions is created where any payments of principal and/or profit are overdue by 90 days and above (in line with the CBO guidelines) or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

10.1 Quantitative Disclosure

(a) Total Gross Credit and Average Gross Credit

	2014		2013	
	Total Gross Credit	Average Gross Credit	Total Gross Credit	Average Gross Credit
	RO	RO	RO	RO
Sales receivables	**60,660,602**	**40,239,112**	19,817,621	19,817,621
Ijarah Muntahia Bittamleek and Ijarah Assets	**67,365,954**	**40,602,072**	13,838,189	13,838,189
Wakala Bil Istethmar	**17,850,000**	**8,925,000**	-	-
Investments in sukuk & securities	**9,439,507**	**34,571,809**	59,704,110	59,704,110
Interbank Wakala Placements	**58,733,667**	**56,438,198**	54,142,728	54,142,728
Total	**214,049,730**	**180,776,191**	147,502,648	147,502,648

Note: The Bank does not have internal ratings hence all the externally unrated exposure are classified as unrated for the purpose of Credit Risk Assessment in line with the credit risk Standardized Approach.

The breakup of Investment in Sukuks & securities and Interbank Wakala placements with respect to external ratings are given below:

	2014		2013	
External Ratings	Investment in Sukuks and Securities	Interbank Wakala Placements and Due from Banks	Investment in Sukuks and Securities	Interbank Wakala Placements and Due from Banks
	RO	RO	RO	RO
AAA	-	-	2,887,000	-
AA+,AA-AA	**2,072,510**	-	15,420,000	1,377,000
A+, A, A-	-	**15,000,000**	21,306,000	211,000
BBB+, BBB, BBB-	**7,000,000**	**17,094,000**	19,996,000	33,632,000
BB+, BB, BB-	-	**12,705,000**	-	16,997,728
Unrated	**366,997**	**13,934,667**	95,088	1,925,000
Total	**9,439,507**	**58,733,667**	59,704,110	54,142,728

(b) Exposure in terms of geographical area

	Assets			Liabilities		
31 December 2014	Due from banks & Interbank Wakala investment	Gross financing	Investments in sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
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		
31 December 2013	Due from banks & Interbank Wakala investment	Gross financing	Investments in sukuk & securities*	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
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

*The CBO has permitted the Bank to hold the International Sukuk denominated in foreign currency above the regulatory limit till December 2014. However, the Bank has achieved the compliance before the expiry.

(c) Customer concentrations

	Assets			Liabilities		
31 December 2014	Due from banks & Interbank Wakala investment	Gross Financing	Investments in sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
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		
31 December 2013	Due from banks & Interbank Wakala investment	Gross Financing	Investments in sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
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

(d) Industry concentrations

31 December 2014	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
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
Total	58,733,667	9,439,507	145,876,556	93,720,987	51,223,406

31 December 2013	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
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
Total	54,142,728	59,704,110	33,655,810	28,064,363	5,364,926

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

31 December 2014	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
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

31 December 2013	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
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

(f) Residual contractual maturities of the portfolio by major types of Islamic financing assets:

31 December 2014	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
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

31 December 2013	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
Up to 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

(g) Total gross exposure and average gross exposure to equity based financing structures by type of financing contract during the previous year and over the period.

As of reporting date, the Bank does not have any equity based financing.

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

As of reporting date the Bank does not have any impaired or non-performing financing.

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

As of reporting date the Bank does not have any impaired or non-performing financing.

(j) Distribution of general provision with type of Islamic financing asset:

31 December 2014	Performing financing	Non-performing financing	General provisions held
	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

Note: OMR 94,325 is additionally assigned as general provision against Inter-bank wakala where original maturity is more than 1 year.

31 December 2013	Performing financing	Non-performing financing	General provisions held
	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

(k) Change in loss provisions during the financial year

During the year there is no change in loss provision.

(l) Penalty imposed on customers for default, and the disposition of any monies received as penalty

During the year, OMR 3,204 (Dec 2013: zero) penalty is imposed to customer for delayed payment and same has been transferred to charity as the policy.

11. Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate credit risks that the Bank is exposed to. Credit risk mitigants reduces the credit risk by allowing the Bank to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

11.1 Qualitative Disclosure

- The Bank only considers Sharia approved collaterals and guarantees to mitigate credit risk. Assets offered by customer must meet the following criteria to be acceptable as collateral:
- Assets must be maintaining their value, at the level prevalent at inception, until maturity of the facility approved;
- Such assets should be easily convertible into cash, if required;
- There should be a reasonable market for the assets; and

- The Bank should be able to enforce its right over the assets if necessary

  For assets financed under Ijarah Muntahiya Bittamleek, the underlying asset is used to mitigate the default risk (Loss Given Default).

- The Bank accepts Hamish Jiddiyyah, Urbun, Profit Sharing Investment Accounts, pledged assets, Sukuk (rated/unrated), third party guarantees (by sovereigns, banks, corporate entities and High net-worth Individuals) as risk mitigant.

- Where eligible collaterals are available against facilities, the Bank takes independent valuation by approved valuators only and ensures that the assets held as collateral meet the criteria mentioned above. The Bank does not have any non-performing assets as of date however, whenever the acquires/disposes assets as a last resort on fair market value and decides on case to case basis to acquire or not for its operations.

- The Bank considers guarantees and if the risk profile/weight of the guarantor is better than the counterparty then risk weight is applied based on the rating of guarantor.

11.2 Quantitative Disclosure

(a) Disclosure of the total carrying amounts by type of collateral of any assets held as collateral by the Licensee (including any haircuts) and the terms and conditions relating to the pledges

	2014	2013
	RO	**RO**
Real Estate	**55,397,810**	13,239,790
Movable Assets	**34,756,844**	10,706,030
Total	**90,154,654**	23,945,820

The value of the collateral is adjusted by relevant haircut as mandated by IBRF. Since Bank does not have any financing against eligible financial instruments (equity shares or Sukuks) therefore no haircut is applied for the purpose of calculation of Risk Weighted Assets or assessment of specific provision requirements.

(b) Disclosure of the carrying amount of assets owned and leased under Ijarah Muntahiyah Bittamleek

	2014	2013
	RO	**RO**
Ijarah Muntahia Bittamleek	**59,938,439**	13,838,189

12. 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.

12.1 Qualitative Disclosure

- 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 incorporates contingency funding 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 Bank monitors its liquidity risk of funding related to current account, saving accounts, investment accountholder on individual basis as well as on aggregate basis through cash flow approach and stock approach.
- 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 through Sharia compliant financing and investment activities.

12.2 Quantitative Disclosure

The related disclosure on Liquidity Risk is given below:

(a) Indicators of exposure to liquidity risk - short-term assets to short-term liabilities

	2014	2013
	RO	RO
Short-term Assets	**120,503,858**	78,717,574
Short-term Liabilities	**80,178,941**	45,490,863
Short-term Assets to Liabilities	**150.29%**	173.04%

(b) Indicators of exposure to liquidity risk - liquid assets ratio

	2014	2013
	RO	RO
Liquid Assets	**69,022,113**	134,514,826
Short-term Liabilities	**80,178,941**	45,490,863
Total Liabilities	**121,062,669**	56,885,028
Liquid Asset to Short-term Liabilities	**86.09%**	295.70%
Liquid Asset to Total Liabilities	**57.01%**	236.47%

(c) Maturity profile of assets and liabilities

31 December 2014	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
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

31 December 2013	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**
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

13. Market Risk

Market risk is the risk of loss due to unfavorable movements in market factors such as profit rates, exchange rates and equity prices. The Bank's Market risks arise generally due to open positions in currency, holding common equity, and other products. All such instruments and transactions are exposed to general and specific market movements.

13.1 Qualitative Disclosure

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.

13.2 Quantitative Disclosure

(a) Breakdown of Market RWA

	2014	2013
	RO	RO
Equity Position	-	-
Froeign Exchange Risk	**34,767,171**	86,670,649
Commodity Risk	-	-
Total	**34,767,171**	86,670,649

(b) Foreign Exchange Net Open Position to Capital

	2014	2013
Foreign Exchange Net Open Position to Capital	17.81%	52.79%*

As of reporting date, the bank only has Foreign Currency risk which is mainly denominated (98.4%) in USD. Since OMR is pegged with USD therefore the sensitivity analyses is immaterial to be reported.

*The Bank had relaxation from CBO for International Sukuks which are denominated in USD and are the major contributor in the FX exposure till Dec 2014. The NOP after taking the relaxation on approved equity comes to 16.90%.

(c) Commodity Net Open Position to Capital

The Bank does not have any commodity available for sale as of reporting date.

(d) Equity Net Open Position to Capital

The Bank does not have any equity in its trading book as of reporting date.

(e) Total Amounts of assets subject to market risk by type of assets

The Bank does not have any investments/assets in Trading Book. Market risk weighted assets only comprise FX position which is mentioned above in item (a).

(f) Measure of Value-at-risk or other sensitivity analyses for different types of market risk

As of reporting date, the bank only has Foreign Currency risk which is mainly denominated (98.4%) in USD. Since OMR is pegged with USD therefore the sensitivity analyses is immaterial to be reported.

14. Operational risk

14.1 Qualitative Disclosure

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 are accordingly performance of the department is reviewed on regular basis. The Risk Appetite statement also sets a target for the Management related to Operational Risk and accordingly business plans, product programs are designed to minimize potential operational risk.
- The Bank has defined process for reporting and escalation of operational incidents that stores in the master database for tracking in future. Also, on an annual basis the potential high risk exposures are identified by each business and support function and accordingly controls are discussed/implemented to minimize risk exposures. The Bank's Sharia Compliance department checks independently the processes on regular basis to ensure there is no sharia related issue that could trigger operational loss to the Bank.

- As per the Bank's policy, operational risk is responsibility of all the staff members and all line managers are responsible for management of operational risk within their unit. Process and Control Improvement is a business as usual for the Bank, accordingly all the line managers are required to perform process and control improvement on regular/need basis to ensure the Bank is not taking any unnecessary risk in carrying out business activities.

- The Bank has well-defined Business Continuity Management policy which is approved by Board Governance Risk and Compliance Committee and now is at the stage of presenting to Board of Directors for final approval. During the year the Bank also conducted a drill at Head Office to see the Bank's readiness to attend to any major event that could result in major disruption to the Business.

14.2 Quantitative Disclosure

(a) RWA Equivalent for Quantitative Operational Risk

- 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. However, as a second year of operations, the Bank has taken gross income for 18 months for 2013 and 2014 and accordingly capital charge is calculated by taking average of two years.

		2014	2013
		RO '000	RO '000
Net income from financing activities		3,646	571
Add: Net income from investment activities		3,512	2,264
Add: Fee income		747	69
Less: Investment account holders share of income		426	58
Add : Other Income		39	2,712
Total Revenues		7,518	5,558
		-	-
Less: Exceptional and extraordinary income		-	2,700
Gross Income		7,518	2,858
Gross Income times of Alpha (15%)		1,128	429
Operational Risk Weighted Assets	12.5x	14,096	5,359
Operational Risk Weighted Assets (Average of two Years)		9,727	-

(b) Indicators for Operational risk exposures

	2014	2013
	RO '000	RO '000
Gross Income taken in RWA calculation	7,518	2,858

There is no Sharia non-compliance income recognized during the year and whenever such incident happens, the Bank policy is to transfer such funds to charity.

15. 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.

15.1 Qualitative Disclosure

- 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 (ALCO) that reviews the profit rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.

- The sensitivity of the income statement 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 31 December 2014.

15.2 Quantitative

- Indicators Of Exposures To Rate Of Return Risk – Expected Payments/Receipts On Financing And Funding At Different Maturity

31 December 2014	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
	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	-	-

31 December 2013	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
	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**	**-**	**-**

- Sensitivity Analysis Of The Bank's Profits And The Rate Of Return To Price Or Profit Rate Movements In The Market

Impact on earnings due to rate of return 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)

16. Displaced Commercial Risk

Displaced Commercial Risk (DCR) refers to the magnitude of risks that are transferred to shareholders in order to cushion the Profit Sharing Investment Account (PSIA) from bearing some or all of the risks to which they are contractually exposed in Mudaraba funding contracts. Under a Mudaraba (profit sharing and loss-bearing) contract, in principle, unrestricted PSIA are exposed to the aggregate impact of risks arising from the assets in which their funds are invested, but they benefit from the DCR assumed by the Bank. This risk-sharing is achieved by constituting and using various reserves such as Profit Equalization Reserve (PER), and by adjusting the Mudarib's (Bank as fund manager) profit share in order to smooth the returns payable to the IAH from exposure to the volatility of aggregate returns arising from banking risks, and thereby to enable payment of returns that are competitive in the marketplace.

16.1 Qualitative Disclosure

- The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:

- Profit Equalization Reserve (PER)

  PER comprises amounts appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of a PSIA portion and a shareholders' portion;

- Investment Risk Reserve (IRR)

  IRR comprises amounts appropriated out of the income of IAH after deduction of the Mudarib share of income, to meet any future losses on the investments financed by the PSIA.

  The analysis of distribution of Mudaraba profit during the period is as follows:

	2014	2013
Items	RO	RO
Total distributable profits	**5,537,082**	2,173,875
Bank Share As " Fund Provider"	**5,181,458**	2,130,360
Depositors Share of profits	**355,624**	43,515
Bank Share As " Mudarib"	**(112,015)**	(19,383)
Net profit to be distributed to the depositors before IRR & PER	**243,609**	24,132
Investment Risk Reserve "IRR"	**(10,764)**	(2,325)
Profit Equalization Reserve "PER"	**(121,824)**	(4,866)
Net profit to be distributed to the depositors after IRR & PER	**111,021**	16,941

- There was no utilization of funds from PER for the purpose of enhancing the returns to depositors

- The Bank is taking all the Risk Weighted Assets funded by IAH for the purpose of arriving at Total Risk Weighted Assets and capital requirement is calculated accordingly.

16.2 Quantitative Disclosures

Since this is the second year of Bank's operations, disclosures related to historical performance, market comparison is not ineffective for the purpose.

17. Contract-Specific Risk

In each type of Islamic Financing asset is exposed to a varying mix of credit and market risk and accordingly capital is required to be allocated for such risk exposures.

17.1 Qualitative Disclosure

- As of reporting date financing assets only carries credit risk and accordingly capital is allocated as per the required regulations by CBO. The current product mix does not change the nature of risk according to the stage of contract.

17.2 Quantitative Disclosure

Disclosure of Capital Requirements according to different risk categories for each Sharia compliant financing contract

	2014				2013			
	RO		RO		RO		RO	
	Credit risk		Market risk		Credit risk		Market risk	
	Capital Requirement	RWA	Capital Requirement	RWA	Capital Requirement	RWA	Capital Requirement	RWA
Ijara Muntahia Bittamleek and Ijara Assets	5,817,054	46,075,675	-	-	7,049,958	58,749,650	-	-
Sales Receivables	6,581,275	52,128,911	-	-	17,175,305	143,127,542	-	-
Wakala Bil Istethmar	9,014,250	71,400,000	-	-	-	-	-	-
Letter of Guarantees	1,394,132	11,042,630	-	-	-	-	-	-
Letter of Credit	813,169	6,440,943	-	-	2,210,554	18,421,283	-	-
Bills for Collection	1,069,517	8,471,422	-	-	43,905	365,875	-	-

18. General Disclosure from Corporate Governance

18.1 Qualitative Disclosure

- An important objective of these disclosures is to ensure transparency regarding Sharia compliance by the Bank and applicable reporting standard. As such all material information are published as soon as practicable while meeting the deadlines set by the disclosure requirements of the CBO and the Bank is compliant with the applicable financial reporting standards.

- Corporate Governance is the system of rules, practices and processes by which the Bank is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in the Bank- these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining the Bank's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

- The Capital Market Authority (CMA) Code of Corporate Governance for Public Listed Companies and the CBO guidelines as per the IBRF Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Bank Nizwa complies with all of their provisions. The CMA Code of Corporate Governance can be found at the following website, www.cma.gov.om. Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders or more broadly as its relationship to society

The following disclosure summarizes disclosure of related party:

31 December 2014	Principal shareholders	Sharia'a Board	Senior management	Total
	RO	RO	RO	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	Sharia'a Board	Senior management	Total
	RO	RO	RO	RO
Sales receivables	1,100,956	-	115,484	1,216,440
Customers' accounts	486,157	985	167,533	654,675
Unrestricted investment accountholders	-	-	-	-

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

31 December 2014	Principal shareholders	Sharia Board	Senior management	Total
	RO	RO	RO	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	Sharia Board	Senior management	Total
	RO	RO	RO	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

- Raising awareness about Islamic Finance has always been an integral part of the Bank's strategy. The bank constantly utilizes various communication platforms for awareness to a multitude of audiences such as printed press, radio, TV, and social media. Direct workshops with smaller groups especially at colleges and universities were also conducted throughout the year. The bank also aims to play a pioneering role in supporting social, economic and industry related activities and initiatives through constructive collaborations/sponsorships with various organizations. The bank utilized sponsorship opportunities, advertising campaigns, and road shows to market its products and services as well as raise awareness about Islamic finance.

- The Bank maintains formal procedure on handling of customer complaints. The Bank has set up a call center equipped with the required resources to respond to customer calls in a professional manner. There is a form for registration of complaints on Bank's website along with the contact details for customer to register their complaints. A dedicated team under supervision of CEO for management of customer complaints and feedbacks on the Bank's products and services is already operational. The customer care and quality services team of the Bank takes active part in resolution of customers' complaint and considers customers feedback on products and services. All complaints are logged and investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints in minimum timeframe. Whenever this is not possible, the customer is contacted directly and timeframe for rectification of complaint is advised. A periodical report on status of complaints is also submitted to CEO and Senior Management.

19. Sharia Governance Disclosures

19.1 Qualitative Disclosure

- Sharia Compliance department (SCD) is an element of the governance structure as established in Bank Nizwa and approved by the Sharia Supervisory Board (SSB). An effective Sharia policy enhances the diligent oversight of the Board of Directors (BOD), the SSB and the Management of the Bank to ensure that the operations and business activities of the Bank remain consistent with Sharia principles and its requirements.

- To ensure Sharia compliance in all aspects of day-to-day Islamic finance activities of the Bank, the Central Bank of Oman (CBO) has spelled out several provisions in relation to the establishment of a SSB and an internal SCD in an Islamic Bank. The SSB is an independent Sharia supervisory body which plays a vital role in providing Sharia views and rulings pertaining to Islamic finance activities of the Bank. The SSB also acts as a monitoring body which performs an oversight role through the Sharia Compliance Department to maintain Sharia compliance in the operations and business activities of the Bank.

- At the institutional level, the SCD acts as an intermediary between the SSB and the Management team of the Bank. The SCD together with the SSB has the role to assist the Management in ensuring that all activities of the Bank are in compliance with the Sharia rules and principles, in accordance with the guidelines laid down by Islamic Banking Regulatory Framework issued by the CBO. However, the accountability to ensure Sharia compliance as well as the implementation of SSB's Sharia rulings remains with the BOD and the Management of the Bank.

- SCD reports functionally directly to SSB, and to CEO with respect to administrative issues. SSB through SCD provides copies of its Sharia decisions and resolutions to Board of Directors and CEO because management is responsible to assure that Sharia resolutions are executed in the transactions and all products and services of the bank. SSB reports its findings directly to the general assembly of shareholders at the end of each year.

- Sharia Compliance Department performs its functions based on the guidelines provided by CBO in the IBRF and by Sharia rulings and resolutions issued by SSB as well as the Sharia Standards issued by AAOIFI. To ensure effectiveness of the functions, the SCD covers both the ex-ante and ex-post examinations, on constant review basis, each type of transaction across business lines, the relevant documentations and procedures adopted and/or entered into by the Bank. The overall Sharia Compliance activities are reported in the Monthly CEO Report which is sent to the Management of the Bank and the same report is provided to the SSB on its quarterly SSB's meeting. Meanwhile, the event reporting of any Sharia non-compliance risk management is being done on a monthly basis to record and evidence any committed Sharia non-compliant event, if any.

- On the ex-post function, Sharia Audit unit executes continuous audit for transactions of all departments. Its observations and findings are reported by Sharia Audit report to SSB which is also conveyed and discussed with Management, with documentation of Management responses in addition to recommending action plan for each observation.

- Internal Sharia reviewer assumes the responsibilities of head of Sharia compliance department. Functions include supervising Sharia audit and providing Sharia training. The major technical role of internal Sharia reviewer is to execute Sharia review of all financing and investment proposal in coordination with Sharia compliance manager. Consequently, a Sharia review report is prepared for each proposal and presented to Sharia Ex-com and Sharia Supervisory Board in the monthly and quarterly meetings. Review of proposals within current approved product programs and Sharia Supervisory Board guidelines are presented to the respective business units as part of the required documents for execution. This function is the pre-execution Sharia review activity.

- In addition to these daily functions, the Internal Sharia Reviewer acts as the coordinator for the Sharia Supervisory Board and prepares the meeting file and the minutes of meetings. Sharia resolutions and guidelines are then communicated to the respective business unit heads for adherence. Any approval required from business units before the next meeting of Sharia Supervisory Board is communicated by the Internal Sharia Reviewer to Sharia Supervisory Board members by email for review and providing Sharia resolution. Sharia Supervisory Board has also delegated specific authorities to Sharia Ex-com whereby its members are entitled to issue Sharia resolutions for such cases. Internal Sharia Reviewer also prepares the agenda and minutes of meetings for Sharia Ex-com and communicates its Sharia resolutions to relevant business unit heads

- To ensure Sharia compliance in execution, all transactions are executed according to Standard Operating Procedures prepared by the Operations Department and approved by the concerned department heads including Sharia. Sharia audit uses screen sheets to meet Sharia requirement and ensure that the SOPs are adhered to during execution.

- Sharia audit is performed on continuous basis for all transactions of business units and other relevant department such as finance and branches. Sharia Supervisory Board approves the Sharia audit plan annually, based on which the Sharia audit is performed. Sharia audit unit manager delegates Sharia audit responsibilities among Sharia audit department staff members to audit the executed transactions. Retail, International Trade instruments and Treasury are audited on sample basis at a minimum of 10%, and in 2014 the actual Sharia audit sample exceeded 30%. All other business transactions such as Corporate and Investment departments are audited on 100% basis. During the year, Sharia audit was conducted as per the plan and the approach mentioned earlier. Sharia audit also performs monthly review of profit distribution calculation in Finance department and disclosure in branches in addition to reviewing Sharia non-compliant revenues, if any, with proper disbursement to charity as per guidelines set by Sharia Supervisory Board.

- Branches are also subject to Sharia audit on regular basis, with visits conducted by Sharia audit unit manager accompanied by members of Sharia audit unit as needed. Such visits to branches in all regions of Oman have three basic objectives: Conduct Sharia audit of transactions processed at branch level, maintain contact with branch staff and provide updated Sharia training, and providing answers on Sharia related issues to staff and customers. All the above described Sharia audit activities are reported to Sharia Supervisory Board in a quarterly report, while any Sharia non-compliant observation is reported monthly to Sharia Executive Committee for their review and resolution. All Sharia audit observations are documented in Sharia audit reports which are shared with the head of Internal Audit as a member of the Internal Audit Committee in addition to the heads of all concerned business units.

- In conclusion, Sharia audit function is a continuous process which is supervised by the Internal Sharia reviewer based on screen sheets and check-lists for every transaction type, with follow up for any required regularization or amendments in addition to confirming documentation of all Sharia audit observations. The annual Sharia audit plan is also updated and upgraded based on business requirements and presented to Sharia Supervisory Board for approval before implementation.

- Sharia audit reports are presented for review during the quarterly SSB meetings. In case SSB rules any earnings as Sharia non-compliant, such income is diverted to a charity account and disbursed to charitable organizational, officially recognized and registered, as nominated and supervised by SSB. Usually, Sharia non-compliant income is generated from delay penalty charges whereby clients undertake to donate to charity a certain amount in case of delay in installment payments to charity. Any Sharia non-compliant income or expense is presented by Sharia audit unit to SSB who issues a Sharia ruling regarding these amounts as indicated.

- As per IBRF, Islamic banks are required to apply Sharia standards issued by AAOIFI and abide by the comprehensive IBRF regulatory framework and guidelines. IBRF is mostly in agreement with Sharia standards issued by AAOIFI, and therefore, both references are applied with IBRF as the priority reference as the official regularity authority.

- Sharia compliance department prepared a Sharia Training Policy which covers the objectives and scope of Sharia training in addition to Sharia Training Plan which is updated annually and approved by Sharia Supervisory Board and includes the training topics and training methods to be utilized. All Staff members at the bank participate by attending in-house Sharia training delivered by Sharia compliance department members who provide the preliminary information in the induction program for new entry staff about Islamic Banking, financing and investment tools, in addition to the functions and services provided by the bank. Providing Sharia training in induction programs are concluded in coordination with HR department who arrange training programs for new comers.

- In addition to the above, Sharia compliance department provides training on continuous basis to staff of other departments as arranged based on training time allocation for all business units such as corporate, treasury, investment, operation units, and support units. Unscheduled special training modules are conducted for specific case discussion based on business requirements.

- Sharia training is not only internal, but encompasses the outside environment also. The bank has already hosted several Sharia training sessions for professionals, teachers, and students on the bank premises in addition to many other Sharia training events and awareness campaigns in several locations in Oman including universities, schools, business entities, conferences and writing articles for newspapers. Such training is delivered in both Arabic and English languages with reading material made available to attendees. To provide a higher rate of Sharia training, Sharia compliance department shall include next year a new staff member dedicated to Sharia training who shall enforce spreading awareness on Islamic banking in the various regions and communities of Oman, in addition to the internal Sharia training conducted in house.

- Details of meeting attended by SSB are given in Corporate Governance section.

19.2 Quantitative Disclosure

Disclosure of the nature, size and number of violations of Sharia compliance during the year

- Two (2) violations to SSB's Sharia ruling and AAOIFI Sharia standard have been found for the Retail Goods Murabaha transactions. Based on the Sharia audit finding in these transactions, SSB through Sharia Ex-Com has issued its Sharia ruling in its meeting on 22/12/2014 stated that the profit for these two (2) transactions amounting OMR 867 has to be forfeited from the Bank's income statement and channeled to charity account.

- To avoid any similar or other potential Sharia non-compliant transaction, all the bank's staff through the respective Business Heads have been instructed to adhere to the Sharia process as indicated in the SOP, under strict observation from Sharia audit unit.

Disclosure of annual Zakah contributions of the Licensee, where relevant, according to constitution, general assembly or national requirements or as required by the respective SSB

- SSB issues its Sharia compliance certificate where it identifies that Sharia compliance has been observed in the bank's transactions and contracts, and in case of any violation, the observation is listed in the report. In addition, and as per management decision, SSB certificate also stipulates that Zakat calculation and payment is the responsibility of the shareholders.

Remuneration of Sharia board members

- SSB members are compensated for their contribution in the business supervision by an agreed quarterly remuneration, in addition to SSB meeting attendance fees. SSB members who participate from outside Oman are also entitled to travel and hotel accommodation expenses. In case of conflict of interest, the conflict issue shall be reported and a decision shall be issued by SSB in this regard.

- During the year, the Bank paid OMR 67,075 (Dec 2013: OMR 70,717) on account of remuneration to the SSB which includes accommodation, travelling expenses, meeting and annual fees.

20. Disclosures on Remuneration

The Bank has engaged a consultant to achieve compliance with CBO requirements issued in January 2014. Accordingly, the Bank will disclose information about the compensation practices covering the main components of sound compensation practices, consistent with Basel Committee for Banking Supervision (BCBS) paper on Pillar 3 disclosure requirements for remuneration issued in July 2011.

End of Basel II Pillar 3 Disclosures

BASEL III COMMON DISCLOSURE

(as per the template to be used during the transition of regulatory adjustments i.e. from 1 January 2013 to 1 January 2018)

		2014	2013
	Common Equity Tier 1 capital: instruments and reserves	**RO**	**RO**
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	**152,091,192**	152,091,192
2	Retained earnings	**(20,013,541)**	(12,304,780)
3	Accumulated other comprehensive income (and other reserves)	-	-
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
5	Public sector capital injections grandfathered until 1 January 2018		
6	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
7	Common Equity Tier 1 capital before regulatory adjustments	**132,077,651**	139,786,412
8	Common Equity Tier 1 capital: regulatory adjustments		
9	Prudential valuation adjustments	**(43,458)**	(806,654)
10	Unrealized losses		
11	Goodwill (net of related tax liability)		
12	Other intangibles other than mortgage-servicing rights (net of related tax liability)	**(1,910,394)**	(2,301,270)
13	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**(1,091,636)**	(338,477)
14	Mortgage Servicing rights (amount above 10% threshold)		
15	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
16	Amount exceeding the 15% threshold		
17	of which: significant investments in the common stock of financials		
18	of which: mortgage servicing rights		
19	of which: deferred tax assets arising from temporary differences	**(1,637,455)**	(1,353,907)
20	National specific regulatory adjustments		
21	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
22	Total regulatory adjustments to Common equity Tier 1	**(4,682,943)**	(4,800,308)
23	Common Equity Tier 1 capital (CET1	**127,394,708**	134,986,104
24	Additional Tier 1 capital: instruments		
25	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-
26	of which: classified as equity under applicable accounting standards	-	-
27	of which: classified as liabilities under applicable accounting standards 6	-	-
28	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
29	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
30	of which: instruments issued by subsidiaries subject to phase out	-	-
31	Additional Tier 1 capital before regulatory adjustments	-	-
32	Additional Tier 1 capital: regulatory adjustments		
33	Investments in own Additional Tier 1 instruments		
34	Reciprocal cross-holdings in Additional Tier 1 instruments		

BASEL III COMMON DISCLOSURE

(as per the template to be used during the transition of regulatory adjustments i.e. from 1 January 2013 to 1 January 2018)

		2014	2013
35	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
36	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
37	National specific regulatory adjustments		
38	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		
39	OF WHICH:Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
40	OF WHICH:Other intangibles other than mortgage-servicing rights (net of related tax liability)		
41	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
42	Total regulatory adjustments to Additional Tier 1 capital		
43	Additional Tier 1 capital (AT1)	-	-
44	Tier 1 capital (T1 = CET1 + AT1)	**127,394,708**	134,986,104
45	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus		
47	Directly issued capital instruments subject to phase out from Tier 2		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
49	of which: instruments issued by subsidiaries subject to phase out		
50	Provisions	**1,923,451**	429,726
51	Tier 2 capital before regulatory adjustments	**1,923,451**	429,726
52	Tier 2 capital: regulatory adjustments		
53	Investments in own Tier 2 instruments		
54	Reciprocal cross-holdings in Tier 2 instruments		
55	Total regulatory adjustments to Tier 2 capital		
56	Tier 2 capital (T2)	**1,923,451**	429,726
57	Total capital (TC = T1 + T2)	**129,318,159**	135,415,830
58	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT		
59	Total risk weighted assets (60a+60b+60c)	**278,888,335**	186,355,924
60	Of which: Credit risk weighted assets	**234,393,927**	94,326,525
61	Of which: Market risk weighted assets	**34,767,171**	86,670,649
62	Of which: Operational risk weighted assets	**9,727,237**	5,358,750
63	Capital Ratios		
64	Common Equity Tier 1 (as a percentage of risk weighted assets)	**45.68%**	72.43%
65	Tier 1 (as a percentage of risk weighted assets)	**45.68%**	72.43%
66	Total capital (as a percentage of risk weighted assets)	**46.37%**	72.67%

BASEL III COMMON DISCLOSURE

(as per the template to be used during the transition of regulatory adjustments i.e. from 1 January 2013 to 1 January 2018)

Table 2 (A)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	RO	RO	RO	RO
Assets	**Dec-14**	**Dec-14**	Dec-13	Dec-13
Cash and balances with Central Bank of Oman	**25,091,759**	**25,091,759**	27,667,988	27,667,988
Certificates of deposit	-	-	-	-
Due from banks	**58,639,342**	**58,639,342**	54,142,728	54,142,728
Islamic Financing	**135,515,741**	**135,515,741**	30,593,520	30,593,520
Investments in Sukuks and Securities	**9,439,507**	**9,439,507**	59,704,110	59,704,110
Financing to banks	-	-	-	-
Investment in Assets generated revenue	**14,175,000**	**14,175,000**	14,175,000	14,175,000
Property and equipment	**4,478,525**	**4,478,525**	4,394,651	4,394,651
Deferred tax assets	**2,734,306**	**2,734,306**	1,786,896	1,786,896
Other assets	**3,031,751**	**3,031,751**	3,532,035	3,532,035
Total assets	**253,105,931**	**253,105,931**	195,996,928	195,996,928
Liabilities				
Due to banks	**16,901,500**	**16,901,500**	25,179,000	25,179,000
Customer deposits	**93,856,911**	**93,856,911**	28,052,981	28,052,981
Current and deferred tax liabilities	-	-	-	-
Other liabilities	**10,304,258**	**10,304,258**	3,653,047	3,653,047
Subordinated Sukuks	-	-	-	-
Total liabilities	**121,062,669**	**121,062,669**	56,885,028	56,885,028
Shareholders' Equity		-	-	-
Paid-up share capital	**150,000,000**	**150,000,000**	150,000,000	150,000,000
Share premium	**2,091,192**	**2,091,192**	2,091,192	2,091,192
Legal reserve	-	-	-	-
General reserve	-	-	-	-
Retained earnings	**(20,013,541)**	**(20,013,541)**	(12,304,780)	(12,304,780)
Cumulative changes in fair value of investments	**(34,389)**	**(34,389)**	(674,512)	(674,512)
Subordinated debt reserve	-	-	-	-
Total shareholders' equity	**132,043,262**	**132,043,262**	139,111,900	139,111,900
Total liability and shareholders' funds	**253,105,931**	**253,105,931**	195,996,928	195,996,928

BASEL III COMMON DISCLOSURE

(as per the template to be used during the transition of regulatory adjustments i.e. from 1 January 2013 to 1 January 2018)

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	RO	**RO**	RO	RO
Assets	**Dec-14**	**Dec-14**	Dec-13	Dec-13
Cash and balances with CBO	**25,091,759**	**25,091,759**	27,667,988	27,667,988
Balance with banks and money at call and short notice	**58,639,342**	**58,639,342**	54,142,728	54,142,728
Investments				
Of which Held to Maturity	**7,000,000**	**7,000,000**	7,000,000	7,000,000
Out of investments in Held to Maturity:				
Investments in subsidiaries	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-
Available for Sale			-	
Of which: Investments in Sukuks and Securities	**2,439,507**	**2,439,507**	52,704,110	52,704,110
Held for Trading			-	
Investments in Real Estate	**14,175,000**	**14,175,000**	14,175,000	14,175,000
Islamic Financing Of which :			-	
Islamic Financing to domestic banks			-	
Islamic Financing to non-resident banks			-	
Islamic Financing to domestic customers	**130,467,499**	**130,467,499**	24,583,511	24,583,511
Islamic Financing to non-resident Customers for domestic operations			-	
Islamic Financing to non-resident Customers for operations abroad	**5,048,242**	**5,048,242**	6,010,009	6,010,009
Islamic Financing to SMEs	-	-	-	-
Islamic Financing from Islamic banking window			-	
Fixed assets	**4,478,525**	**4,478,525**	4,394,651	4,394,651
Other assets of which:			-	
Profit Receivable	**730,282**	**730,282**	627,043	627,043

BASEL III COMMON DISCLOSURE

(as per the template to be used during the transition of regulatory adjustments i.e. from 1 January 2013 to 1 January 2018)

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Prepaid Expense	**286,660**	**286,660**	475,185	475,185
Refundable Deposits	**88,588**	**88,588**	88,488	88,488
Goodwill			-	
Other intangibles	**1,910,394**	**1,910,394**	2,301,271	2,301,271
Deferred tax assets	**2,734,306**	**2,734,306**	1,786,896	1,786,896
Others	**15,827**	**15,827**	40,048	40,048
Debit balance in Profit & Loss account				
Total Assets	**253,105,931**	**253,105,931**	195,996,928	195,996,928
Capital & Liabilities				
Paid-up Capital	**150,000,000**	**150,000,000**	150,000,000	150,000,000
Of which:			-	
Amount eligible for CET1	**132,077,651**	**132,077,651**	139,786,412	139,786,412
Amount eligible for AT1	-	**-**	-	-
Reserves & Surplus	**(34,389)**	**(34,389)**	(674,512)	(674,512)
Total Capital	**132,043,262**	**132,043,262**	139,111,900	139,111,900
Deposits Of which:				
Deposits from banks			-	
Customer deposits	**93,856,911**	**93,856,911**	28,052,981	28,052,981
Deposits of Islamic Banking window				
Other deposits(please specify)			-	
Borrowings Of which: From CBO			-	
From banks	**16,901,500**	**16,901,500**	25,179,000	25,179,000
From other institutions & agencies	-	**-**		-
Borrowings in the form of bonds, Debentures and sukuks	-	**-**	-	-

BASEL III COMMON DISCLOSURE

(as per the template to be used during the transition of regulatory adjustments i.e. from 1 January 2013 to 1 January 2018)

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Others (Please specify)			-	
Other liabilities & provisions Of which:			-	
Creditors and Accrual	**3,364,082**	**3,364,082**	1,918,941	1,918,941
Payment Order	**6,237,985**	**6,237,985**	1,658,166	1,658,166
Profit Payables	**641,197**	**641,197**	24,187	24,187
Others	**60,994**	**60,994**	51,753	51,753
TOTAL	**253,105,931**	**253,105,931**	195,996,928	195,996,928

BASEL III COMMON DISCLOSURE

(as per the template to be used during the transition of regulatory adjustments i.e. from 1 January 2013 to 1 January 2018)

Table 3

Disclosure template for main features of regulatory capital instruments
Common equity comprises of 1,500,000,000 equity shares of RO 100 each fully paid up, issued and governed under the law of Sultanate of Oman.

1	Issuer	Bank Nizwa
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for Private placement)	BKNZ:OM
3	Governing law (s) of the instrument Regulatory treatment	Sultanate of Oman
4	Transitional Basel III rules	Tier 1
5	Post-transitional Basel III rules	Eligible
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Paid-up Capital
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 152.091 Millions
9	Par value of instrument	100 Bz
10	Accounting classification	Paid-up Capital
11	Original date of issuance	23-Apr-12
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	subsequent call dates, if applicable Coupons/dividends	N/A
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	if convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	N/A
31	If write-down, write-down trigger (s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A