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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF BANK NIZWA'S CONTROL PROCEDURES RELATING TO SHARI'A COMPLIANCE AND GOVERNANCE STRUCTURE

We have been engaged by the Board of Directors of Bank Nizwa SAOG (the 'Bank') to perform an independent reasonable assurance engagement on the management's report on control procedures relating to Shari'a compliance and governance structure and management's assertion on the design and operating effectiveness of these controls (together the "Management Shari'a compliance and governance report") for the year ended 31 December 2017.

Management's responsibility

The Bank's management is responsible for the preparation and presentation of the Management Shari'a compliance and governance report, including the completeness, accuracy and developing the control objectives of the Shari'a compliance and governance structure; and designing, implementing, and effectively operating internal controls to achieve the stated control objectives, and to ensure the Bank's compliance with relevant provisions of the Islamic Banking Regulatory Framework ('IBRF') issued by the Central Bank of Oman (CBO) and the guidelines and directives issued by its Shari'a Supervisory Board ('SSB'). Management is also responsible for the prevention and detection of fraud, error and non-compliance with the laws and regulations applicable to the activities of the Bank including compliance with IBRF and guidelines and directives issued by its SSB.

Practitioner's responsibility

Our responsibility is to express an independent conclusion on the management Shari'a compliance and governance report and on the design and operating effectiveness of these controls, based on our procedures. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. That standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the Shari'a compliance and governance report is fairly presented and the controls are suitably designed and operating effectively. The engagement is also in compliance with the applicable AAOIFI standards.

An assurance engagement to report on the management Shari'a compliance and governance report, design and operating effectiveness of the controls involves performing procedures to obtain evidence about the controls stated therein, and the design and operating effectiveness of these controls. The procedures selected depend on the practitioner's judgment including the assessment that the Management Shari'a compliance and governance report is fairly presented, and that controls are suitably designed and operating effectively. An assurance engagement of this type also includes evaluating the overall presentation of the Management Shari'a compliance and governance report, and the suitability of the criteria described therein.

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

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF BANK NIZWA'S CONTROL PROCEDURES RELATING TO SHARI'A COMPLIANCE AND GOVERNANCE STRUCTURE (continued)

Limitation of Management Shari'a Compliance and Governance Report

The management Shari'a compliance and governance report is prepared to meet the needs of a range of users and may not, therefore, include every aspect of the control procedures that each user may consider important in their own particular environment.

Our procedures regarding adequacy of systems and controls relating to the Bank's compliance with the SSB guidelines and directives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, such procedures may not be relied upon as evidence of the effectiveness of the systems and controls against fraudulent collusion, especially on the part of those holding positions of authority or trust.

The conclusion relates only to the year ended 31 December 2017. The conclusion does not provide assurance in relation to any future periods as changes to systems or controls may alter the validity of our conclusion.

Quality Control Requirements

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Compliance with Independence and Other Ethical Requirements

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our work mainly included:

- 1) Discussion with the Bank's management on the Shari'a compliance and governance structure of the Bank;
- 2) Review of documentation and systems established by the Bank to develop Shari'a compliance and governance framework, in order to develop an understanding of the Shari'a compliance and governance framework and an understanding of the related internal controls. This includes:
 - a. Review of minutes of meetings of SSB and Board of Directors;
 - b. Review of policies and procedures;
 - c. Review of selected job descriptions;
 - d. Review of reports prepared by the SSB.
- 3) Assessing the risks that management's Assertion on the description of controls may be materially misstated;
- 4) Performing further procedures on the identified risks, as deemed appropriate, using a combination of inspection, observation, confirmation and inquiry;
- 5) On a sample basis testing of transaction level controls listed in the Management Shari'a compliance and governance report;

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF BANK NIZWA'S CONTROL PROCEDURES RELATING TO SHARI'A COMPLIANCE AND GOVERNANCE STRUCTURE (continued)

Summary of the work performed (continued)

- 6) Review of pools management;
- 7) On a sample basis testing of product specific controls listed in the Management Shari'a compliance and governance report;
- 8) Checking of compliance with employee training procedures of the Bank; and
- 9) On a sample basis testing of other controls listed in the management Shari'a compliance and governance report.

The scope of our work is also in compliance with 'scope of the auditor's work' as outlined in AAOIFI standard No. 4 regarding 'Testing for Compliance with Shari'a Rules and Principles by an External Auditor'.

Conclusion

In our opinion, the management's assertion that internal controls relating to Shari'a compliance and governance and the design and operating effectiveness of those controls is effective, in all material respects, based on criteria laid down in the Management Shari'a compliance and governance report, is fairly stated.

Intended users and purpose

In accordance with the terms of our engagement, this independent reasonable assurance report on the Bank's Shari'a compliance and governance framework and its compliance with the relevant provisions of the IBRF and guidelines and directives issued by its SSB, has been prepared for the Board of Directors of the Bank and for the CBO, solely to assist the management to meet the requirement of clause 2.5.1.22 of Title 2 of IBRF and circular no. BDD/IB/CB/2013/7941 dated 2 September 2013 issued by the CBO, and for no other purpose or in any other context.

This report should not be regarded as suitable to be used or relied upon by any third party, for any purpose or in any context. Any third party who obtains access to this report or a copy thereof and chooses to rely on this report (or any part thereof) does so at its own risk; and we accept no responsibility or liability to any third party. Our report is not to be copied, referred to or disclosed, in whole or in part, to any third party, other than CBO, without our prior written consent.

Ernst & Young LLC

31 January 2018
Muscat

