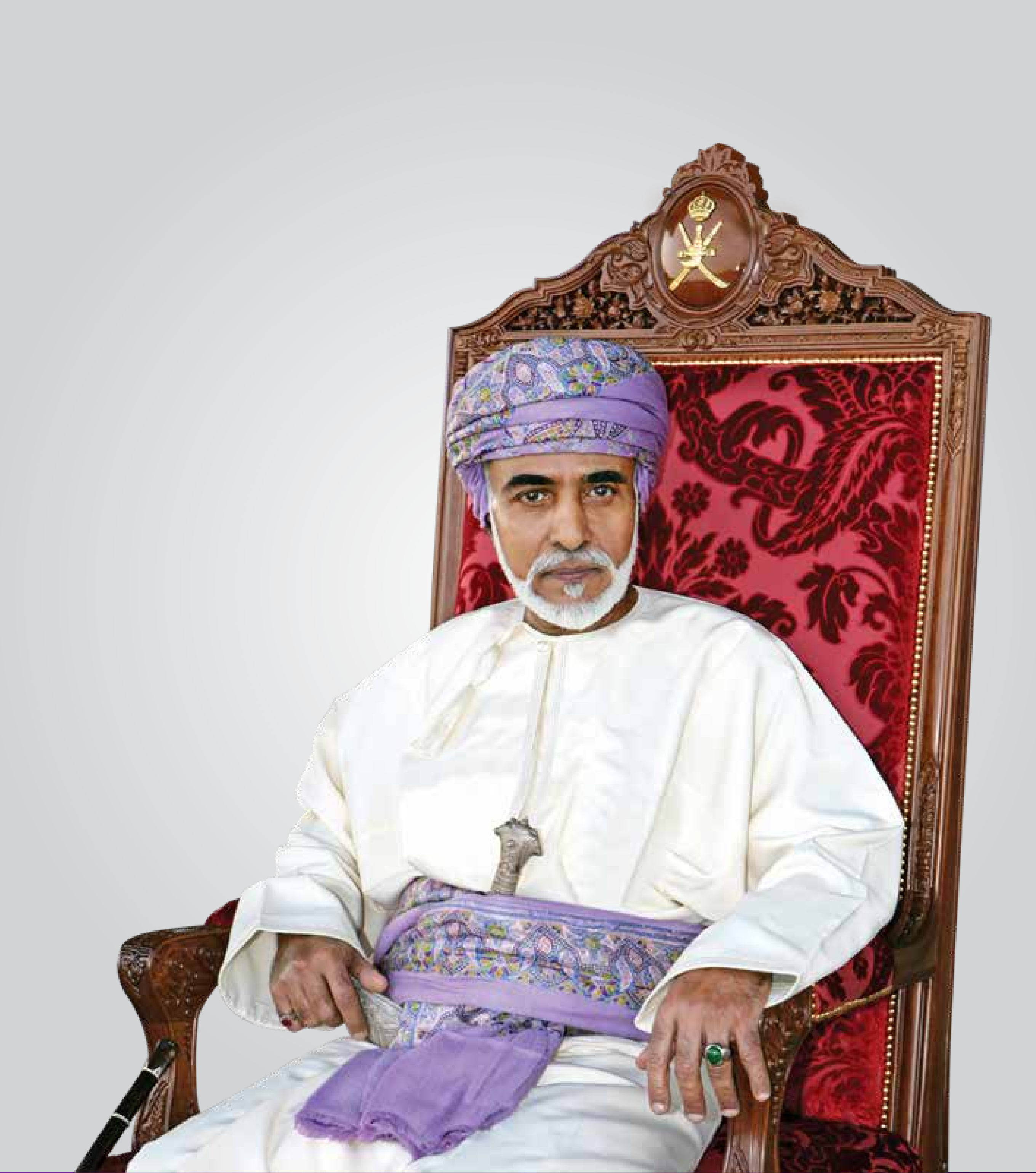
GROWING TO SERVE

ANNUAL REPORT
2018

بنك نزوى
Bank Nizwa



HIS MAJESTY SULTAN QABOOS BIN SAID

GROWING TO SERVE

Setting new benchmarks for growth

Since inception as the first fully-fledged Islamic bank in Oman, Bank Nizwa had set the trend in raising awareness on Sharia compliant banking and its benefits in communities across the nation.

Over the years, our successes have been defined by our expanding branch network, banking channels, products & services portfolio, technology infrastructure – to serve a growing number of individuals, small and medium-scale enterprises, business corporations and government institutions.

Our achievement of a record growth in assets and revenues in 2018, sets the stage for even higher growth benchmarks for us – and for Islamic finance in the Sultanate.

CONTENTS

BOARD OF DIRECTORS

(LEFT TO RIGHT)

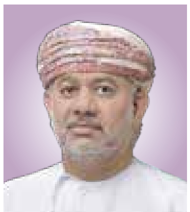
- **MR. HUSSAIN YOUSEF DAWOOD AL SHALWANI** - BOARD MEMBER
- **SHEIKH ABDULAZIZ KHALIFA ABDULLAH AL SAADI** - BOARD MEMBER
- **MR. MUSABAH SAIF MUSABAH AL MUTAIRY** - BOARD MEMBER
- **SHEIKH AHMED SAIF MUSALLAM AL RAWAHI** - VICE CHAIRMAN
- **SAYYID AMJAD MOHAMMED AHMED AL BUSAIDI** - CHAIRMAN
- **SHEIKH MUADH SALIM AL GHAZALI** - BOARD MEMBER
- **SHEIKH SAIF HILAL NASSER AL MAWALI** - BOARD MEMBER
- **SHEIKH KHALID ABDULLAH ALI AL KHALILI** - BOARD MEMBER

MANAGEMENT TEAM 2019

MR. KHALID JAMAL AL KAYED
Chief Executive Officer

MR. R. NARASIMHAN
General Manager
Wholesale Banking

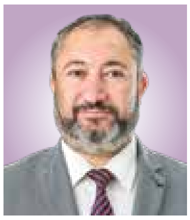
MR. NASSER SAID AL LAMKI
General Manager Internal Audit



MR. MOHAMED FIDA HUSSAIN
Deputy General Manager, Risk Management
Chief Risk Officer

MR. ARIF MAQBOOL AL ZAABI
Assistant General Manager
Retail Banking

MR. SALIM RASHID AL MAHARBI
Chief Financial Officer



DR. MANSOOR ALI AL QUDAH
Head of Sharia

MR. TARIQ MOHAMMED OSMAN
Head of Legal Department/
Secretary to The Board of Directors

MR. MOHAMMED MAHMOOD AL BALUSHI
Head of Information Technology

H.H. SAYYIDA WISAM JAIFER Al SAID
Head of Corporate Communications
and Marketing

MS. HAIFA ABDUL ALI AL LAWATI
Acting Head of Human Resources

MR. ZAHIR HAMED AL SAQRI
Head of Operations

MR. MOHAMMED HAMED AL HASHMI
Head of Compliance

MR. KHALID ABDUL RAHMAN AL ZADJALI
Head of Administration

FINANCIAL HIGHLIGHTS

Solid Capital Base

Common Equity Capital Ratio

2018

15.4%

2017

16.31%

Strong Solvency Ratio

Capital Adequacy Ratio

2018

16.24%

2017

17.25%

Robust Liquidity Position

Liquidity Coverage Ratio

2018

1569%

2017

115%

Substantial High Quality Liquid Assets

Net Stable Funding Ratio

2018

127%

2017

133%

FINANCIAL HIGHLIGHTS

Increasing Shareholders' Return

Growth in Profit

2018

98%

2017

330%

Growing Market Share

Growth in Assets

2018

25%

2017

35%

Excellent Asset Quality

Non-Performing Financing

2018

0.04%

2017

0.05%

Gaining More Customer Confidence

Growth in Deposit

2018

35.18%

2017

49.36%

CHAIRMAN'S REPORT

For the financial period ended
31st December 2018

Sayyid Amjad Mohammed Al Busaidi
Chairman

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 2018. These results are 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. The most encouraging developments in the year include the bank's record net profit which surpassed market expectation and our recognition as the 'Best Islamic Retail Bank" for the fourth year in a row, and 'Fastest Growing Bank in Oman' at the Banker Middle East Industry Awards of 2018. These achievements are a reflection of our position as the largest and fastest growing full-fledged Islamic bank in the Sultanate. In this message, I am pleased to highlight the progress we made in 2018 towards achieving our strategic ambitions, and to set out our plans for 2019 and onwards.

In 2018, economic activity picked up pace which in turn improved business environments. Improvement in oil prices coupled with local demand have given the non-oil activities a much needed stimulus. As a result, the financial sector, especially the Islamic banking sector, witnessed continuous growth. We believe that this upward trajectory indicates the importance of the Islamic finance sector which has an enormous potential to grow despite the challenges it faces. It was an encouraging year for Islamic banks as the Islamic finance sector has been consistently growing during the period.

The bank delivered a good set of results in its sixth year of operations driven by healthy activity across our various businesses and notable improvements in cost efficiency. This is a record profit supported by growth in our core business. The strong operating performance was underpinned by higher revenue on the back of financing asset growth and improved margins, further supported by a customer-oriented approach engrained in all our processes.

This is the result of executing our 2020 ambition and related growth strategy, and our ability to adapt to the economic realities including the competitive environment in which we operate. This milestone was achieved while focusing on our commitment to provide unsurpassed customer experience and adhering to the core values that formed our institution.

During the year our primary focus was on growing our balance sheet in a controlled manner, diversifying revenue streams, and expanding our products and client base in addition to enhancing delivery channels. This is in line with our strong determination to take the Bank Nizwa success story to the next level.

We will continue to demonstrate a strong and resilient business model, built upon strategy aiming to deliver a solid financial performance across businesses through a customer-centric approach, a stable and conservative liability base, a culture of service excellence and efficiency, diligent risk management and highly talented employees.

FINANCIAL PERFORMANCE

An overview of the results of 2018 reveals that we have achieved good growth rates in most financial indicators. The total assets rose by 25% reaching to 872 Million Rial Omani, total portfolio of financing rose by 24% to reach 703 Million Rial Omani, total customers' deposits rose by 35% reaching to 712 Million Rial Omani, and the total shareholders' equity grew by 5% to reach at 137 Million Rial Omani. We also achieved net profit by the end of the year of 7.5 Million Rial Omani, compared to 3.8 Million Rial Omani in 2017 registering a growth of 98% year-on-year.

Our operating performance is underpinned by an impressive growth in the bank's assets, revenue, control on expenses and a significant improvement in the cost of risk. Our Retail and wholesale banking units continued their strong performance throughout 2018 which helped boost operating revenue to 27 Million Rial Omani and increase of 21% from 2017. Despite challenges, the Bank's balance sheet remains strong due to excellent asset quality and robust capital ratios.

FUTURE OUTLOOK

While markets have started the year in relatively good spirits, with equities and oil prices rising, growth forecasts were already trimmed including by The World Bank for 2019. GCC growth rebounded in 2018, following a slowdown in 2017.

We are cautiously optimistic for 2019, with oil revenue likely to be higher on average for most GCC producers, and non-oil growth underpinned by government spending.

GCC economies are anticipated to register economic growth, supported by easing fiscal adjustment, infrastructure investment and reforms to promote non-oil sector activity. Strengthening private consumption and investment is anticipated to support stronger growth in the region. Growth among the GCC countries as a group is forecast to pick up to two and half per cent in 2019.

The year ended with constructive economic data which leaves Oman's economy entering 2019 on a firm footing. Economic growth is expected to grow by three per cent as per the budget statement issued by the Ministry of Finance. It is projected that the banking sector's credit will grow by 6% to 7%, while the operating environment will continue to face challenges due to fiscal consolidation amid increasing debt weighing on economic growth. The government's initiatives of diversifying funding sourcing, tapping international markets, and revision in regulations have eased pressure on local liquidity. However, increased cost of funding still remains a challenge for the sector.

Oman's prudent fiscal management will continue in 2019 as the budgeted deficit is kept on track as planned. The budget is based on a conservative oil price of US$ 58/bbl, compared to forecast of US$ 65/bbl. Oil markets will continue to experience volatility above and below the forecasted price and OPEC plus production cut will continue to control excessive supply. While we expect oil prices to be on average of the budgeted price, the government will continue the rationalisation of expenditure and focus on increasing non-oil revenues and controlling public spending. Despite the continued economic challenges posed by geo-economic factors, GDP growth is achievable as the government accelerates the reform process and development spending. However, weaker than expected oil prices could cloud growth prospects.

Given that the private sector is expected to play a pivotal role in capital formation, the focus of the government will not only be to improve the investment climate and promote public private partnerships but also to give significant support to small and medium enterprises by allocating some of the government projects to this sector, in order to ensure the swift implementation of the National Program for Enhancing Economic Diversification ('Tanfeedh') initiatives. The positive fiscal and government initiatives providing support to the economy will increase demand for credit.

The outlook for 2019 remains positive with numerous sectors expecting growth such as manufacturing, tourism, logistics, mining, fisheries, and trade.

Going forward, the banking sector will continue to capitalise on its key competitive advantages and we will continue to look for opportunities for growth whilst ensuring that we maintain our speed and focus to safeguard shareholder interest. With a solid business model, strong fundamentals and the right strategy in place, we will focus on enhancing capabilities and synergies across our businesses throughout 2019, as well as diversifying our customer base across product and service lines. We are also continuing to strengthen our channels of distribution through digitalisation and investing in our people to support future growth.

We are fully confident that the bank is on the right track to capture future opportunities, support sustainable growth and continue to maximise shareholder value.

ACKNOWLEDGEMENT

On behalf of the 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 are 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.

I would also like to thank all our shareholders and customers for their loyalty and trust as we continue to retain our position as the largest full-fledged Islamic bank in the country. I look forward to 2019 being another successful year for Bank Nizwa.

Amjad bin Mohammed Al Busaidi
Chairman

Building a better
working world

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Sultanate of Oman

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

REPORT OF FACTUAL FINDING

TO THE SHAREHOLDERS OF BANK NIZWA SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Bank Nizwa SAOG (the "Bank") as at and for the year ended 31 December 2018 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Bank's compliance with the Code as issued by the CMA and are summarised as follows:

1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Bank includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2) We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2018. The Bank's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

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 corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance 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.

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. This report relates only to the accompanying corporate governance report of Bank Nizwa SAOG to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of Bank Nizwa SAOG, taken as a whole.

Ernst & Young LLC

Muscat
10 March 2019

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س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي – ١١٢ ، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

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 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 them 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 by the Shareholders during the Annual General Assembly took place on 27 March 2016, for a period of three years.

The Board is responsible for overseeing the Bank's management and business affairs and makes all major policy decisions for the Bank. The seigniory/province of current Board will end on date of Ordinary General Meeting on 28/03/2019 where a new Board will be elected for 3 years from the date of Ordinary General Meeting.

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, remain 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 follows Commercial Company law where the process of nomination of directors is stipulated clearly. 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.

Composition & Classification of the Board			
Name of Director	Category	Represents	No. of Other Directorship
1. Sayyid Amjad Mohamed Ahmed Al Busaidi	Non-Executive	Independent	1
2. Sheikh Abdulaziz Khalifa Abdullah Al Saadi	Non-Executive	Civil Services Employees Pension Fund	1
3. Mr. Musabah Saif Musabah Al Mutairy	Non-Executive	Independent	2
4. Mr. Hussain Yousef Dawood Al Shalwani	Non-Executive	Independent	1
5. Sheikh Saif Hilal Nasser Al Mawali	Non-Executive	Independent	0
6. Sheikh Muadh Salim Ahmed Al Ghazali	Non-Executive	Independent	0
7. Sheikh Ahmed Saif Musallam Al Rawahi	Non-Executive	Independent	0
8. Sheikh Khalid Abdullah Ali Al Khalili	Non-Executive	Independent	2

Profile of Directors

Sayyid Amjad Mohammed Ahmed Al Busaidi - Chairman

Sayyid Amjad is currently the Assistant Head of Admin and Finance at the 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 include coveted positions such as Chairman of Oman Qatari Telecommunications Company (Ooredoo). He holds a Masters of Business Administration degree from Southern Cross University, Australia.

Sheikh Ahmed Saif Musallam Al Rawahi - Vice Chairman

Starting his career in 1978 as the Deputy Director of Finance at the Diwan of Royal Court, Sheikh Ahmed 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 37 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 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, Sheikh Al Rawahi also holds an MBA from The American University in Washington D.C. and a public finance budgeting diploma from Harvard University.

Sheikh Abdulaziz Khalifa Abdullah Al Saadi – Member

Sheikh Abdulaziz is currently the deputy operational manager at the Civil Services Employees pension fund. He has worked for the pension fund for over 15 years. Sheikh Abdulaziz also holds a Master's degree in Accounting in addition to an FCCA certificate. He is also currently a board member at some leading companies.

Mr. Musabah Saif Musabah 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 a specialization in Finance by the University of Lincolnshire Humberside (UK) and currently is also holding a position as a board member in Takaful Oman insurance.

Sheikh Muadh Salim Ahmed Al Ghazali – Member

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

Mr. Hussain Yousef Dawood Al Shalwani – Member

Mr. Hussain was previously a board member at Bank Sohar and played an active role its set up. Mr. Hussain has earned a Bachelor's degree with over 34 years of experience, holding various posts related to finance and investment.

Sheikh Saif Hilal Nasser Al Mawali – Member

Sheikh Saif has worked for the Ministry of Commerce and Industry and the Directorate General of Organizations 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 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 Saif is also accredited by the World Customs Organization as a Trade Facilitation Expert.

Sheikh Khalid Abdullah Ali Al Khalili-Member

Sheikh Khalid has over 20 years of experience as a businessman in various industries including retail, international agents, pharmaceuticals, aviation, and military equipment.

He is currently a board member at the Oman international investment company (member of the Audit Committee). In addition he is a board member in Fincorp's Al Amal fund (an investment fund registered under the Capital Market Authority). He has experience working with investment in the securities market. Sheikh Khalid holds a Bachelor's degree in civil engineering from Florida Tech institute, 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 financial year ended in 31/12/2018, the board has conducted 6 meetings.

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

Board Members Attendees for the year 2018

Name of director	28/01/2018	04/03/2018	29/04/2018	29/07/2018	28/10/2018	29/11/2018
Sayyid Amjad Mohammed Ahmed Al Busaidi	√	√	√	√	√	√
Sheikh Ahmed Saif Musallam Al Rawahi	√	X	√	√	X	√
Sheikh Khalid Abdullah Ali Al Khalili	√	√	X	X	X	√
Mr. Hussain Yousuf Dawood Al Shalwani	√	√	√	√	√	√
Sheikh Abdulaziz Khalifa Abdullah Al Saadi	√	√	√	√	√	√
Sheikh Saif Hilal Nasser Al Mawali	√	√	√	√	√	√
Sheikh Musabah Saif Musabah Al Mutairi	√	√	√	√	√	√
Sheikh Muadh Salim Ahmed Al Ghazali	√	X	√	√	√	√

Board of Director has received an amount of RO 59,850 as sitting fees for the year ended December 31, 2018, which includes the Board sub-Committees, where the sitting fees per each Director did not exceed RO 10,000 as per the guidelines of CMA. As all members of the Board are Non-Executive Directors; no fixed remuneration or performance linked incentives are applicable.
The total remuneration received by the top 5 Executives in Management during the year ended December 31, 2018 is 835,227.

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 specialized 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
Sheikh Ahmed Saif Musallam Al Rawahi (Chairman)	7
Sheikh Khalid Abdullah Ali Al Khalili	7
Sheikh Saif Hilal Nasser Al Mawali	7
Sheikh Abdulaziz Khalifa Abdullah Al Saadi	7
Total Number of Meeting Held During the year:	7

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, reviewing the effectiveness of the Bank's internal financial control including accounting policies and changes thereto and review of annual and quarterly financial statements prior to publication in order to ensure their balance, transparency and integrity.

The Audit Committee also reviews the effectiveness of the internal audit function; the independent external audit process including recommending the appointment and assessing the performance of the external auditors as well as specifying their fees.

Audit Committee	
Name of Members	No. of Meetings Attended
Mr. Hussain Yousuf Dawood Al Shalwani - Chairman	4
Mr. Musabah Saif Musabah Al Mutairy - Member	4
Sheikh Muadh Salim Ahmed Al Ghazali - Member	4
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
Sheikh Saif Hilal Nasser Al Mawali - Chairman	4
Sayyid Amjad Mohamed Ahmed Al Busaidi	4
Sheikh Ahmed Saif Musallam Al Rawahi	4
Mr. Musabah Saif Musabah Al Mutairy	3
Total Number of Meeting Held During the year:	**4**

- Mr. Musabah bin Saif Al Mutairy joined the Committee in accordance with the Board of Directors' decision dated 29/04/2018 to reconstitute the Committee committed to the directives of the regulators on the necessity of presence of a permanent member of the Board of Directors' Committee on Governance and Risk in the Remuneration & Nomination Committee

Board Governance, Risk and Compliance Committee

The Board Governance, Risk and 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, recognizing 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.

Governance, Risk & Compliance Committee	
Name of Members	No. of Meetings Attended (BGRCC) meetings
Mr. Musabah Saif Musabah Al Mutairy - Chairman	4
Sheikh Muadh Salim Ahmed Al Ghazali	3
Sheikh Abdulaziz Khalifa Abdullah Al Saadi	4
Total Number of Meeting Held During the year:	**4**

Evaluation of Board Members

As per the Charter of the Organization and Management of Public Shareholding Companies issued by the Capital Market Authority, that Annual General Meeting held on21/3/2017 appointed Protiviti as an independent body to evaluate the members of the Board of Directors in accordance with the controls prescribed in this regard.

Major Shareholders

Bank Nizwa 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 31st December 2018 are tabulated hereunder:

Major shareholders	%
Civil Employees' Pension Fund	8.879%
Al Ghadeer Investment	8%
Public Authority For Social Insurance	7.286%
Diwan of Royal Court Pension Fund	5%

Bank Nizwa Share Price Movements

DATE	Bank Nizwa Share Performance			Financial Sector Performance at MSM			Average Index MSM
	HIGH	LOW	CLOSE	HIGH	LOW	CLOSE	
Jan-18	0.0890	0.0880	0.089	7,616.880	7,328.170	7,375.740	7,453.657
Feb-18	0.0890	0.0880	0.088	7,604.580	7,285.610	7,364.510	7,409.686
Mar-18	0.0860	0.0850	0.085	7,405.010	7,120.360	7,121.430	7,271.653
Apr-18	0.0870	0.0860	0.087	7,465.220	7,074.830	7,266.840	7,274.730
May-18	0.0890	0.0880	0.089	7,340.640	7,125.170	7,184.280	7,234.876
Jun-18	0.0920	0.0900	0.091	7,255.570	7,050.040	7,056.290	7,165.540
Jul-18	0.0840	0.0840	0.084	7,056.290	6,688.170	6,737.500	6,879.630
Aug-18	0.0890	0.0860	0.087	6,945.830	6,688.170	7,453.190	6,824.931
Sep-18	0.0870	0.0860	0.086	7,044.730	6,863.450	7,032.540	6,933.643
Oct-18	0.0870	0.0870	0.087	7,089.100	6,906.310	6,925.430	6,965.744
Nov-18	0.0870	0.0860	0.086	7,028.690	6,846.720	6,890.270	6,937.803
Dec-18	0.0910	0.0890	0.091	7,152.020	6,751.900	6,827.200	6,915.092

Source: Muscat Securities Market

Communication with Shareholders and Investors

The Management Discussion and Analysis Report forms 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

During the Calendar Year 2018, the Central Bank of Oman levied a monetary penalty of RO. 8,000/- (Rial Omani Eight Thousand Only) of noncompliance related to some operations issue(s) . However, the Bank has already initiated corrective measures to achieve compliance status.

Following is the detail of penalties imposed by CBO and CMA over three year's period:

Regulator(s)	2016	2017	2018
Capital Market Authority	NIL	NIL	NIL
Central Bank of Oman	RO 50,600	RO 25,500	RO 8,000

Dividend Policy

The Bank's dividends 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 Annual General Meeting held on 28 March 2018, members of the Sharia Supervisory Board ("SSB").

The current SSB Members include the following scholars:

1. Dr. Abdul-Sattar Abdul-Kareem Abu Ghuddah (Chairman)
2. Sheikh Dr. Mohammad bin Rashid Al Gharbi
3. Sheikh Ibrahim bin Nasser Al Sawwafi

The main roles and responsibilities of the SSB

- Sharia Compliance Department (SCD) is an element of the Sharia Governance vis-à-vis Corporate Governance structure as established in Bank Nizwa and approved by the Bank's Sharia Supervisory Board (SSB). An effective Sharia policy enhances the diligent supervision 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 Islamic banking activities of the Bank, the Central Bank of Oman (CBO) has mandated 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 and investment activities of the Bank. The SSB also acts as a monitoring body which performs a supervisory role through the Sharia Compliance Department to maintain Sharia compliance in the operations and business activities of the Bank.
- At the institutional level, 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 provide Sharia resolutions and guidelines to the Management who shall ensure 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. The accountability to ensure Sharia compliance as well as the implementation of SSB Sharia rulings remain with the BOD and the Management of the Bank.
- SCD reports functionally directly to SSB and reports in parallel to CEO with respect to administrative issues.

SSB through SCD provides copies of its Fatwa / 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 attheendofeachyear.

- Sharia Compliance Department performs its functions based on the Sharia 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 Sharia compliance of transactions, SCD consistently conducts Sharia review before execution of transactions and Sharia audit after execution. Sharia review and audit encompasses each type of transaction across business lines, the relevant documentation and execution procedures. The overall Sharia Compliance activities are reported in the monthly report which is sent to CEO and the same report is provided to the SSB on its quarterly meeting.
- 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 check lists as per SSB Sharia guidelines 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 2018:

Name of Director	Position	2018/1/2	2018/5/13	2018/7/19	2018/9/9	2018/12/23
Dr. Abdul Sattar Abou Ghuddah	Chairman	√	√	√	√	X
Sheikh Mohamad Al Gharbi	Member	√	√	√	√	√
Sheikh Ibrahim Al Sawwafi	Member	√	√	√	√	√

Sharia supervisory board has received an amount of RO 54,461 as sitting fees for the year ended December 31, 2018, which included the SSB sub-Committee.

Details of attendance in Sharia executive committee meeting held during the year 2018:

Executive Committee	
Name of Members	No. of Meetings Attended
Sheikh Dr. Mohamad Al Gharbi	9
Sheikh Ibrahim Al Sawwafi	9
Total Number of Meeting Held During the year:	9

Details of payments done for Sharia executive committee during the year 2018:

No	Member	Total
1	Dr. Abdul Sattar Abou Ghuddah	R.O 15,487
2	Sheikh Dr. Mohamad Al Gharbi	R.O 19,487
3	Sheikh Ibrahim Al Sawwafi	R.O 19,487
	Total	R.O 54,461

Sharia Supervisory Board Members Profile

SHEIKH DR. Abdul-Sattar Abdul-Kareem Abu-Ghuddah (Chairman)

Dr. Abdul Sattar Abdul Kareem Abou Ghuddah is currently the Chairman of the Bank Nizwa Sharia Supervisory Board.

He is an active member of Islamic Fiqh Academy evolving from the Organization of Islamic Assembly in Jeddah, KSA, and a member of the 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 degree in Comparative Islamic Jurisprudence from Al Azhar University in Egypt.

SHEIKH DR. Mohammed bin Rashed Al Gharbi (Member)

Sheikh 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, a Master's degree from Jordan University and a PhD within the field of Islamic Sciences from Zaytouna University in Tunisia.

SHEIKH Ibrahim Nasser Al Sawwafi (Member)

Sheikh Ibrahim bin Nasser Al Sawwafi joined Bank Nizwa as a member of the Sharia Supervisory Board in July 2012. In his capacity, Sheikh Al Sawwafi 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 programs presenting Islamic issues and pens for several newspaper columns and articles. He has written more than twenty books and organized 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 Sawwafi 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 Organization for Islamic Financial Institutions (AAOIFI).

Profile of Management Team:

Mr. Khalid Jamal Al Kayed, Chief Executive Officer – A financial industry veteran with over 26 years under his belt, Al Kayed is associated with Bank Nizwa since its inception. Prior to joining the bank, he held various posts in a host of well-respected financial institutions including Deputy Chief Executive Officer & Chief Financial Officer at Jordan Dubai Islamic Bank and Chief Financial Officer at Standard Chartered Bank Jordan. Recognizing of his services and contribution towards the growth and development of the Islamic Banking industry, he was crowned as 'Islamic Banker of Year' at the 7th Global Islamic Finance Awards 2018 and as one of the Top CEO in the GCC. He holds Masters in International Accounting and Finance from Liverpool University. He is also an alumnus of Columbia Business School from where he has completed executive management program. In addition to this, he is a Certified Management Accountant and Certified Financial Manager from Institute of Management Accountants.

Mr. R. Narasimhan, GM Wholesale Banking – Three and a half decades of experience in commercial banking to his latest position. Narasimhan is in-charge of Wholesale Banking that encompasses business divisions of Corporate Banking, Investments, Project Finance, Treasury, International Banking, and SME Businesses. Narasimhan spent years working in executive roles for some of the largest and most recognized financial institutions in Asia. During his career he has held several senior roles as Vice President, Senior Vice President and Head of Corporate Banking in large sized financial institution. His last assignment was with Bank Sohar as Deputy General Manager Wholesale Banking and later as the General Manager and Head of Retail Banking.

Mr. Nasser Said Al Lamki, GM Internal Audit - has over 22 years of banking experience. Prior to joining Bank Nizwa, he worked in reputed local and international banks in Oman and Saudi Arabia. During his career, he led pragmatic and advanced audit function, while developing and maintaining strong working relationships at both strategic and operational levels, promoting strong risk management and raising the profile of audit. Mr. Lamki was Vice President of Audit in one of the leading Islamic Bank in Saudi Arabia. He holds an MBA in Leadership and Sustainability from University of Cumbria, UK.

Mr. Mohamed Fida Hussain, DGM-Chief Risk Officer - Has over 26 years of experience in the banking industry, across areas of risk management, project and corporate financing, investments, SMEs, retail banking and micro finance, credit administration. He has held senior management positions at a leading Government specialized Development Bank and a commercial bank (Bank Sohar SAOG). He has as MS in Engineering from the USA and an MBA from Sultan Qaboos University. He worked as member of various committees, participated in various task forces concerning banking and development issues. He has also served as part time lecturer at College of Banking and Financial Studies (CBFS).

Mr. Arif Al Zaabi, AGM Retail Banking - has over two decades of experience in the banking industry. His experience covers the entire spectrum of Commercial and Retail Banking; with expertise and experience in the management of Branch Banking, Retail Banking and Sales. Mr. Arif previously held regional manager and branch manager at both the National Bank of Oman and Alliance Housing Bank. He holds a BA degree in business management from Gulf College. Mr Arif is currently pursuing a master's degree in business management at Majan College.

Mr. Salim Rashid Ali Al Maharbi, Acting Chief Financial Officer – He has 23 years of diversified banking experience ranging from domestic and international banks. He is a Certified Islamic Professional Accountant, Certified Accounting Technician from ACCA UK, holds B.A. He has recently obtained a leadership certificate in Islamic Finance from a specialized institute from UK with distinction. He possesses expertise in all the applicable financial standards of AAOIFI, IAS, IFRS and local legislations. Prior to joining Bank Nizwa, he was Chief Manager, Commercial and Finance at Bank Sohar. He has varied experience in the field of Financial Reporting, Financial Accounting, Management Accounting, Internal Controls, Business Planning and Performance Management.

Mr. Tariq Mohammed Osman, Head of Legal Department and Board secretary – He is a veteran in the field of legal and has 36 years of experience working with reputed financial institutions of the region. His major experience is with Dubai Islamic bank – UAE where he served as a legal advisor and lawyer for 12 years of his successful career. He has also served in a reputed non-financial corporate where he served 13 years as a legal advisor and Board secretary. He holds a Master's degree on commercial law.

Mr. Akbar Al Balushi, Head of Compliance - (Resigned) - possesses in his track record an innings of nearly 29 years of professional banking experience. He has gained, over the years, broad banking experience in both Central Banking (attached to the Banking Supervision Department and internal audit department of the Central Bank of Oman) and Commercial Banking (including specialized Investment and Islamic Banking). He resigned on his own accord and his last serving date was December 31, 2018.

Mr. Mohammed Al Balushi, Head of Information Technology - has 23 years of experience in the field of digital technology in Financial Institution. He is associated with the Bank since inception. Prior to joining Bank Nizwa in 2012, Mr. Al Balushi worked with Ahli Bank and Bank Dhofar where he handled and implemented strategic projects. He has earned hands-on experience of implementing digital technologies involving transformation of business and processes. He holds an MSc in Computer Science from University of Glasgow. He also holds a number of professional qualifications and accreditations in the field of IT, banking, management and leadership.

H.H. Sayyida Wisam Jaifer Al Said, Head of Marketing & Corporate Communications - With 12 years of experience as a marketing and communications professional. Sayyida Wisam previously headed the corporate affairs department at Oman Oil Marketing Company before joining Bank Nizwa. She has a Bachelor's degree in Corporate Communications from the American University of Paris with a Master's degree in Strategic Marketing from Cardiff University, UK. Sayyida Wisam also holds a specialised certificate in Direct Marketing. Outside her career in Oman, Sayyida Wisam also trained with UNESCO's Public Bureau of Information and the International Chamber of Commerce based in Paris, France.

Dr. Mansour Al Qudah, Head of Sharia Compliance - Has over 19 years of experience in the Islamic Banking and Sharia audit. He worked in Jordan Islamic Bank as a Sharia board secretary and Sharia audit manager and in the Saudi-based Al Inma Bank as the Assistant General Manager of Sharia Group as well as section manager of Sharia policies and procedures auditing. Dr. Mansour has a PhD in Islamic Banking and Economics from the University of Yarmouk in Jordan. In addition, he has Professional Diploma in Accounting and Auditing from Arab Academy for Banking and Financial Sciences, Jordan. He is also Certified Islamic Banker (CIB) and Certified Islamic Specialist Sharia Auditing (CISSA)

Mr. Khalid Abdulrahman Al Zadjali, Head of Human Resources - Professional career spanning over 18 years. He is an MBA in Business Management and has worked in the entire spectrum of Banking including academia. As a Subject-Matter Expert, he culminated core competency in Human Resource, Training, Development and Administration. He is responsible for developing and managing strategic human capital, ensuring HR policies and practices, integrated and aligned with the Bank's strategic objectives and goals. During his tenures, he has held senior roles where he led long-range strategic planning in order to anticipate the innovation of change initiatives that promote people productivity, Organizational efficiency, and cost effectiveness.

Mr. Zahir Hamed al Saqri, Head of Operations - has 22 years of banking experience. Mr. Zahir is in charge of Operations department. Prior to Bank Nizwa, he worked with Bank Dhofar, HSBC and Bank Sohar. He has diversified experience ranging from Customers Service, Collections, Remedial Management, Administration and Operations. He has strong experience in startups as he contributed in establishing departments from scratch in two banks in Oman including Bank Nizwa. He holds a Diploma in Engineering from Royal Guard of Oman College of Technology.

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 responsibility 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

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,600 partners and approximately 106,775 professionals. Globally, EY operates in more than 150 countries and employs 261,559 professionals in 700 offices. Please visit ey.com for more information about EY.

For the year 2018, total remuneration of OMR 46,000 is approved for E&Y as per the following details:

Details	Amount
Financial Audit Fees for 2018	RO 28,300
Sharia Audit Fees for 2018	RO 4,500
Three quarterly reviews	RO 12,000
Tax fees	RO 1,200
TOTAL	**RO 46,000**

Declarations

During 2018, 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.

MANAGEMENT DISCISSION & ANALYSIS REPORT

For the financial period ended
31st December 2018

Khalid Al Kayed
Chief Executive Officer

The Management Discussion and Analysis Report is a detailed overview of Bank Nizwa's business which covers the period from January 1st 2018 to December 31st 2018.

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 Shari'a-compliant products and services.

Poised for Growth

The Islamic finance sector in Oman witnessed significant growth over the last six years. With two full-fledged Islamic banks and six Islamic windows, Shari'a compliant banking assets accounted for 13% of Oman's total banking assets in 2018 and the growth pace is expected to continue in 2019. The financing assets of Islamic Banks have grown to OMR 3.5 Billion, an increase of 18% since December 2017 and deposit has grown to OMR 3.2 Billion, an increase of 10% since December 2017. 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 exceptional 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 and as a result the Bank achieved a historical milestone by recording net profit. The Bank moved swiftly and significantly ahead in its annual financial plan in 2018. We have successfully delivered against many of the milestones that we set for ourselves in this ambitious agenda. We posted strong results in 2018 with a net profit up 98 per cent year on year. Revenue improved 21% year-on-year due to financing growth. The operating performance was also supported by higher non-funded income, lower expenses and a lower cost of risk. Our balance sheet continues to strengthen with further improvements in capital and liquidity and stable credit quality.

During the year the Bank identified key opportunities, critical areas of improvement and subsequent tactical plans that helped retain its position as the largest full-fledged Islamic Bank in the Country. We have strengthened our position in Wholesale and Retail Banking not only in terms of our leadership in key business segments, but also in terms of service excellence, franchise strength and business capabilities.

COUNTRY ECONOMIC & BUSINESS ENVIRONMENT

Global economic activity remained largely subdued in 2018. However, economic growth in Oman paced up in 2018, as oil prices improved compared to average in 2017. Higher cost of borrowing and fiscal consolidation took their toll. While oil prices did recover from the lows, however, the average oil price remained low compared to the required rate for fiscal breakeven.

2018 has been a challenging year for our region. OPEC's production cuts have weighed on real GDP growth and while oil prices have recovered this year, they remain well below levels seen prior to 2014, keeping up pressure on regional governments to restructure budgets and diversify revenues. The slower growth rate was entirely due to cuts to oil production, in line with OPEC's overall strategy to limit output and reduce excess supply in the global crude market – a strategy that supported the recovery in oil prices last year.

The government has been running a budget deficit and this deficit is expected to continue for some time in the future. However, Oman's net debt position remained manageable and the IMF predicts that the trend will improve in the coming years supported by the growth in GDP. The government's initiative of diversification of the economy has created a positive business environment and increased economic activity. As a result, credit grew by 8% during the year.

Oman's current economic situation remains relatively stable. The 2018 budget and government plans for economic diversification will support the government to withstand economic challenges. It is expected that the GDP will grow by 2.6 per cent in 2019-and banking sector credit will grow by 8% to 10% which will fuel the country and sector's growth.

Outlook for the Banking Sector

Despite volatile oil prices and expanding budget deficit, the banking sector continued its trajectory of growth. Total Credit of the Banking sector crossed OMR 25 Billion by the end of Dec 2018 thus registering a growth of OMR 2.2 Billion or 8.8 percent during the year. On the other hand, total deposits held with banks increased by 4.5 percent. The credit-to-deposit ratio soared to 112 per cent at the end of December 2018 from 109 per cent a year earlier.

An improvement in oil prices led Oman to rebound from the contractionary phase. The economy grew, recovering from an acute contraction during the previous three years, with contribution coming from both hydrocarbon and non-hydrocarbon sectors. However, the economy is already bounced back in 2018 and is projected to accelerate further in 2019.

The banking sector remained resilient supporting the economic diversification initiatives and credit needs. The stability of the banking system stayed intact as the banking sector remained well capitalized, profitable, and fairly liquid with low infection ratio. Overall banking sector Non-Performing Assets ratio suggests satisfactory asset quality and a well contained credit exposure. Improving economic growth will create credit demand, thereby expecting the credit growth to 8%-10% in 2019.

Overall, the banking system is well-positioned for sustained growth in the future and will benefit from the Sultanate's systematic shift towards a more diversified economy.

NATURE OF BUSINESS OF BANK NIZWA

Bank Nizwa is a Shari'a-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 center, ATM/CCDMs, mobile application, 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 Shari'a compliant products including savings and current and Investment deposits accounts as well as home, personal and auto finance solutions.

The Wholesale Banking Division serves the needs of the government sector, government-owned entities, corporate and commercial clients as well as small-and-medium-enterprises (SMEs) through innovative structured working capital, long-term financing and trade finance facilities.

Key Developments in Core Segments

Retail Banking

The Retail Banking Division has continuously worked 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.

As the economy continued to face challenges in 2018, our retail banking division consolidated our base and focused on a number of initiatives to enhance the customer experience and strengthen our position as the leading Islamic Bank in the Sultanate. During the year we introduced Diminishing Musharaka as an additional option under Property Finance. In addition, various features were added to existing products in order to increase customer acquisition. A number of agreements were signed with reputed developers, dealers and vendors in order to provide our customers with additional discounts and value added services. To diversify our product offering we also introduced Takaful products.

Bank Nizwa's Wealth Management offering is an acknowledgement and appreciation of the depth of our customer's relationship with Bank Nizwa. Our wealth management services offer a range of exclusive products, benefits, and discounted rates tailor made to suit the needs of our clients. We plan to enhance the product offerings, in line with the customer needs of this segment.

Our Cards provide a range of offers and discounts available at various merchants locally and regionally. In 2018 we entered into various agreements which enabled our Credit card customers to access over 1000 airport lounges across the globe. In addition, a partnership with Oman Air allows our Wealth Management customers to be enrolled to the Sindbad Silver program which provides a host of airport & travel related benefits.

Moving towards financial inclusion and a digital economy, we continued to improve our digital channels. In order to provide customer convenience, we introduced various new services across all our electronic platforms namely IVR/ Phone banking, mobile banking, internet banking, ATM/CDM machines, SMS and Email.

Continuing with the philosophy of bringing the bank closer to its customers, we launched our 13th Branch at Al Khuwair, Muscat. Strategically located, this branch caters to the residents and businesses of the area. The branch will also cater to number of government offices located nearby. In addition, without compromising service quality and customer experience, the Retail bank undertook numerous initiatives to optimize revenue and reduce costs wherever possible.

In 2018, Retail Banking further consolidated its position as the leading Islamic Bank in Oman by increasing its customer base by almost 15%, 43% increase in Retail deposits and 14% growth in Retail assets. Our 13 branches (located at geographically-strategic locations across Oman) continue to provide excellent service and the best possible financial solutions by analyzing customer needs.

In 2019, the Bank aims to further expand its network and customer-base through value-added services and by offering a rewarding and enriching experience. We will also continue to innovate and introduce new products and services to our customers.

Wholesale Banking

The Wholesale Banking business has a growing portfolio of clienteles in all categories as well as an increasing range of Sharia compliant products for all types of businesses. In 2018, the Wholesale Banking unit's organizational structure was revised in order to align with the changing business environment. At the center of the wholesale banking unit's strategy is customer service. The wholesale banking team utilized client networking opportunities to gain a better understanding of customer needs as well as raise awareness on the progress of Islamic Banking in the country to various business segments. Bank Nizwa's Wholesale Banking unit now stands ready to embark on the Bank's next stage of growth.

Corporate Banking

Corporate Banking continues to acquire new clients and build existing relationships with Sharia compliant offerings and innovative solutions. Despite a challenging and subdued market environment, the business has maintained excellent asset quality through active client management and achieved better fee income as well as net margins for the Bank. The unit's consistent efforts have resulted in successful closure of significant business deals that would provide a stable asset base to the Bank in the next several years. Coverage in the major cities of Muscat, Salalah, Sohar and Duqm remains central with tier two cities going forward.

The unit works in close association with the Bank's Sharia Compliance unit, to continue offering innovative Sharia compliant products and services to large corporate

Project Finance

The focus for project finance has been the successful execution and completion of the existing projects financed by the Bank and the acquisition of new projects or contracts. The team has been successful in acquiring a number of 'green' projects including environment improvement in Muscat, Dakhlia and Dhofar regions. The country's ambition to enhance the manufacturing sector was supported through Sharia compliant financing of key significant deals, despite stiff competition. Besides core financing, an advisory role has also been taken up in sourcing mergers and acquisitions that would yield fee based income to the Bank. Going forward, the unit will endeavor to acquire some sizable business from the upcoming upstream projects.

SME and Commercial Banking

SMEs are playing an increasingly important role in the growth of the economy and in supporting the country's diversification strategy. The bank recognizes this importance and has continued to increase the number of SME customers and business volume by expanding and strengthening a grou of dedicated Relationship Managers to serve Small & Medium Enterprises of various needs through a suite of Sharia-complaint banking products and facilities. Additionally, the unit's Commercial Banking expertise has the capability to serve mid-size enterprises beyond SMEs. At the first phase roll-out of SME business coverage, we sourced business from key interior cities other than Muscat.

Trade Finance

The Bank provides Sharia-compliant Trade Finance solutions to meet the needs of a wide range of customers locally and internationally. As a result of distinguished marketing efforts, Trade Finance expanded the range of customers from small enterprises focused primarily on domestic markets to large corporates operating globally. In addition to supporting our clients with tailored structured products and services, our support also extends to allow them to grow and operate efficiently. Consequently, Trade Finance business achieved sustained growth in the portfolio of trade business, while the growth in the operational income from trade finance increased. On the other hand, LC Murabaha financing value have grown well while the related profit grown steadily during the same period. The unit will continue working towards its vision of being the best provider of trade services in local markets, by delivering professional services to help customers succeed in their trade and to support communities to thrive.

Global Markets

Global Markets unit, apart from Treasury functions, is on course to further enhance its Sukuk Portfolio and Foreign Exchange operations. During the year, Foreign Exchange operations achieved satisfactory growth while the Sukuk portfolio, despite the challenging market environment, continued to make steady contribution to the Bank's income stream. Global Markets shall continue to expand its offering through the Bank's growing channels, providing market knowledge expertise and experience in the Islamic Banking space.

Government & Investment Banking

The Government & Investment Banking unit is one of the main drivers of wholesale deposit base in supporting the Bank's asset growth, apart from investment mandates. The unit adds strength and diversity to the Wholesale Banking business to deliver core funding sources and other revenue streams. Clientele base continues to broaden with the dedicated coverage producing better throughput, instrumental in supporting the Bank's asset growth and income. Additionally, investments maintained afforded income complement. The unit shall continue and focus on efficiency initiatives in tandem with the growing Bank's network and channels.

International Banking (Financial Institutions Group)

The International Banking (FI) unit focuses on building and maintaining relationships within Financial Institutions across the globe to ensure smooth correspondent relations and business flows. In 2018, Bank Nizwa continued building strong connections with local and International Banks around the world. The aim is to provide access to our clients - corporate and institutions - to the international network for trade and payments, and also the state-of-the-art products by the top regional or global banks. New credit lines for handling local and international payments, placements, L/C's and L/G's were set up. The unit shall continue to develop and maintain long-term relationships for the Bank as well as continue on ensuring the efficiency in transactions processes of our correspondent banks and customers.

Wholesale Banking Support

The Wholesale Banking Support unit is a key anchor division backing the business units. The unit was instrumental in the efficiency of Wholesale Banking covering multiple client services and performances. Its function has augmented the overall commendable growth of the Wholesale Banking business. The unit shall continue improving its efficiency foundation to meet the Bank's advancement aspirations, besides contributing immensely to high satisfaction level of service to our clients.

Risk Management

Risk Management is an integral part of our operations and is the responsibility of all units within the bank. The Risk Management function is overseen and managed on a bank-wide basis. The Bank's approach to risk management involves understanding drivers of risks, risk types, and impacts of risks. Drivers of risk include, but are not limited to, the economic environment, regulations, competitor or market evolution, business decisions, process or judgment error, dysfunctional markets, and natural disasters.

Risk Management has been proactive and instrumental in identifying existing emerging key risks and risk drivers, measuring and managing such risks against the backdrop of changing macro-economic conditions and assessing and influencing the Bank's forward-looking strategy.

The Bank is inherently exposed to various types of risks in carrying out its business activities. The Bank has a sound and strong Risk Governance built upon risk-based decision making principles across all levels of the organization. The Bank has a disciplined approach in managing risk and reward to assure that it 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 are 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 in place for manual and system based activities and is approved by the BOD. 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.

As part of the Bank's continuous improvement initiative, the Bank took several initiatives to review and enhance policies and processes to manage the emerging risks, improve efficiencies and customer service aligned to business strategy and risk appetite. The Bank has successfully implemented International Financial Reporting Standard (IFRS) 9 for impairment and business model classification for financial assets. The bank is continuously improving internal standards of financial and non-financial parameters for assessment of credit risk. This will further enhance our new client selection capabilities and will strengthen our credit underwriting terms and conditions to maintain the quality of asset booking. In addition, this has aided in controlling quality of assets. Periodic stress tests and review of the portfolio by segments and sectors were undertaken to identify and proactively manage the portfolio through a robust and well ingrained early alert process existing approved risk policies and adjusted them to changing regulatory and economic environment.

The Bank's Risk Management Group proactively monitors portfolios and implements strategies considering the external environment, focusing its areas of growth on selected segments. The Bank's risk approach is aimed to support portfolio growth within acceptable risk thresholds and ensure that the objectives of a well-controlled balance sheet are met. The Bank made progress in building balance sheet growth in assets and has taken important initiatives to diversify portfolio and ensured that portfolio position across products are stable. Credit losses in retail and wholesale banking assets are the lowest in the industry and well within the risk appetite; they allow sufficient loss absorption capacities in products to expand. Financial performance of all the assets is robust and all products generated healthy returns. The Bank will continue to focus on diversification of banking portfolios while maintaining the current risk level.

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, financing ratio, mitigation of liquidity risk and contingency measures. In order to advance further to manage the risk, the Bank successfully implemented Basel III Liquidity and Capital Standards to meet regulatory requirements.

A risk that is inherent in the Bank's daily operations is defined as 'Operational Risk'. To minimize this risk, an Operational Risk Management Policy was adopted and critical controls were implemented and enhanced as and when required at all levels of the organization. During the period in review, the Bank conducted a bank-wide 'Risk and Control Self-Assessment' to capture and assess all key processes and controls to address operational risks within various businesses and support functions. During the period, the Bank conducted Business Continuity testing of all the critical functions to ensure continuity of critical business in an unforeseen event.

The Bank conducted its annual Internal Capital Adequacy Assessment Process (ICAAP) and a forward looking stress test during the period under review. This process provides the Bank with an assessment of the potential risks and capital requirements under stressed scenarios, and through this exercise has developed a systematic approach to manage its capital requirements during the time of stress. The report is approved by the Board of Directors and submitted to Central Bank of Oman (CBO). The Risk Management team actively tracks the developments from the Basel Committee on Banking Supervision on the global regulatory frameworks and CBO on-going guidelines for local regulations. The Bank progressively integrates relevant aspects of both the frameworks and regulations to build a more resilient Bank in Oman.

Raising Awareness

Bank Nizwa maintains a long-standing commitment to raising awareness on the concepts and principles of Islamic finance and sharing its multifaceted benefits with people across the Sultanate. Championing a variety of workshops, roadshows, forums and discussion groups, the bank's efforts have reached thousands of people ranging from students to public and private sector entities.

In 2018, Bank Nizwa continued its nationwide roadshow called the 'Islamic Finance Knowledge Series' to reach out to local communities across Oman and empower them with knowledge of Islamic finance. This nationwide roadshow made stops in various colleges and universities, including Sultan Qaboos University, Sohar University, and Shinas College of Technology among others.

The bank has been continuously collaborating with a number of reputable Islamic finance institutions to help spread the knowledge of Islamic finance in Oman. In 2017, Bank Nizwa partnered with Takaful Oman and Al Kawthar fund to launch the Sultanate's first of its kind roadshow that shed light on benefits of Shari'a-compliant financial tools under Islamic banking, insurance and investment across multiple governorates.

As the Sultanate's 'go-to reference' for Shari'a-compliant financial solutions, Bank Nizwa has earned a reputation for sharing its expertise with students locally and from different parts of the world. As a result, the bank successfully launched and completed the 'Islamic Finance Summer Course' at Sultan Qaboos University in collaboration with the Central Bank of Oman. In addition, the bank has also welcomed dozens of visiting students reflecting its strategy to continuously develop the industry and spread understanding of its core principles to audiences regionally and globally. To date, the bank has hosted students from some of the most prestigious international universities such as the National University of Singapore, the University of Washington, and Paris Dauphin University to mention but a few.

Determined on making Islamic financial solutions more accessible to the different communities in Oman, the bank introduced its first branch-on-wheels, visiting multiple communities across the country like the Governorates of Muscat, Al Dakhiliyah, Al Sharqiya, Dhofar, Al Batinah and Al Buraimi.

Driving business growth, Bank Nizwa has also reached out to Oman's entrepreneurial community by sponsoring events such as the inaugural Oman Franchise Expo and Conference. The bank has also been able to reach out and empower a growing number of small and medium sized businesses in the Sultanate through its recently launched SME Banking Unit. In addition, the bank has been focusing on its corporate clients, offering a wide range of innovative Shari'a-compliant wholesale banking products including treasury, investment, international banking, and trade finance services, helping it become the business partner of choice for enterprises of all sizes across the Sultanate.

The year 2018 was a year characterized by milestones and achievements. Bank Nizwa celebrated its 5th anniversary after registering the highest growth rate in Oman's banking industry during the first half of 2017. It was also successful in reaching its goal of expanding its network reaching 13 branches in Oman. This roster of milestones was achieved as a result of the bank's unwavering commitment to partner with its customers in their progress - fulfilling and enriching their financial journeys. This customer-first approach has helped the bank in building a formidable banking franchise that has grown from strength to strength over these past five years.

Corporate Social Responsibility

Guided by the principles of Shari'a and a firm dedication to give back to Omani society, Bank Nizwa has taken a leading role in promoting social development and investment through a number of initiatives and programs. Since its inception in 2013, Bank Nizwa's volunteering platform 'Masoliyati', has successfully taken over and embraced numerous opportunities to champion charitable initiatives across the Sultanate. To date, the program has successfully launched a number of high-impact projects including its annual Iftar Sa'em outreach program organized every Ramadan, clean-ups designed to preserve Oman's natural and historic treasures, as well as blood donation drives that have provided blood banks in the Sultanate with urgently needed plasma. In addition, Bank Nizwa has also focused on the social growth of local communities through engaging educational and enriching activities such as a number of competitions to offer the youth of Oman a platform to exhibit their skills and celebrate the values enshrined in the Holy Quran.

Bank Nizwa continues to collaborate with local, regional and international stakeholders to affect change, resulting in collaborations with non-profit organizations, municipalities and ministries across the different regions in the Sultanate.

Awards & Accolades

Bank Nizwa continued to invest in Omani experts of the Islamic finance sector after two of the bank's senior managers successfully completed participation at the prestigious 4th edition of the Cambridge Islamic Finance Leadership Programme. Building on its habit of receiving esteemed awards over the years, in 2018 alone, the bank's long list of accolades included being name the 'Strongest Islamic Retail Bank' in the Sultanate at the Islamic Retail Banking Awards (IRBA) for the 4th year in a row. Thw bank was also named 'Fastest Growing Bank in Oman' at the Banker Middle East Industry Awards of 2018.

Shari'a Governance Processes

Compliance to Shari'a principles and standards are inherently built into the Bank's products and services by following a comprehensive Sharia Governance framework comprised of several key elements listed below that sets the standards and practices that ensure Sharia compliance:

1) **Islamic Banking Regulatory Framework (IBRF)**

   A 'rule book' issued by the Central Bank of Oman on Islamic banking practices that sets guidelines on Shari'a governance, concepts and general product features which are permitted in Oman for Islamic banks.

2) **AAOIFI Standards**

   Shari'a, Accounting and Governance Standards are published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and mandated by CBO; represent a major reference for Shari'a compliance in the Islamic banking sector. Shari'a resolutions which are not available in the AAOIFI Shari'a standards are covered by resolutions from SSB.

3) **Shari'a Supervisory Board (SSB)**

SSB members are well-respected Omani and International Shari'a scholars who review and provide Shari'a resolutions and Fatwas on all products and related processes. This is in addition to overall Shari'a supervision to ensure that Bank Nizwa transactions and operations are Shari'a compliant at all times. The Bank's SSB which meets on quarterly basis consists of Sheikh Dr. Abdul-Sattar Abou-Ghuddah (Chairman), Sheikh Dr. Mohammad bin Rashid Al Gharbi (Member), and Sheikh Ibrahim bin Nasser Al Sawwafi (Member). SSB has established a Shari'a Executive Committee comprises of Sheikh Al Gharbi and Sheikh Al Sawwafi, which meets on monthly basis to review Bank's business from a Sharia perspective and accommodate current business requirements. Shari'a Ex-com resolutions are based on previous SSB Shari'a guidelines and Fatwas.

4) **Shari'a Compliance**

This function provides Shari'a review and supervision for business transactions and support function activities before execution (ex-ante) to confirm that structuring has been concluded based on IBRF, AAOIFI, and SSB Shari'a guidelines and controls. Shari'a Review Reports are prepared to document this supervision activity. To support the Sharia compliance activity, Shari'a non-compliance risks are continuously scrutinized, and specific mitigation controls are set to minimize these risks which occur due to un-intentional human errors. Any income of Shari'a non-compliant transactions are diverted to charity as per SSB guidelines.

5) **Shari'a Audit Function**

A dedicated function within the Bank that reports directly to the Bank's SSB, staffed with experienced professionals who conduct Shari'a audit after execution of transactions to confirm adherence to Shari'a guidelines as issued by SSB and per Shari'a reviews (ex-post). Any Shari'a non-compliance event is immediately reported to Shari'a Ex-com for review and decision and further reported to SSB.

6) **External Shari'a Audit**

As required by IBRF, the Bank appoints an independent and qualified external Shari'a Auditor to audit the activities of the Bank on an annual basis.

7) **Shari'a Training**

To ensure that all members of management and staff have sufficient working knowledge of Islamic banking principles and guidelines, Shari'a compliance department staff continues to exert major focus on Shari'a training so that these principles are understood and practiced. Shari'a training also encompasses external parties based on an awareness campaign on Islamic banking for all constituents of society such as school teachers and students, university students, employees in ministries and public sector institutions.

Human Resources

Employees are the driving force behind the Bank's success, and efforts were centered on advancing their capacities and capabilities to become the future leaders of tomorrow. As a result, the Bank witnessed higher achievements and stronger performance in 2018.

In addition, and as part of the HR strategy, the Bank maintaining performance management to build the culture pay for performance and have proper "Succession Planning" program by providing the selected group of high-potential employees with the required functional and technical skills. The bank is looking at this a critical part of integrated approach of managing and developing its employees.

People Attraction & Recruitment

The bank ended the year with 353 employees in 2018 and contributed towards the Government Employment Initiative by employing 22 unemployed and fresh graduates. Bank Nizwa continued to identify and recruit Omani talent in a competitive market. 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 specialization for vacant positions. Similarly, the Bank is fully committed to retaining key talents.

Training & Development

Bank Nizwa believes in the significance of qualifying and training all categories of employees by providing them with the appropriate skills in various banking and management areas, which would in turn enhance their knowledge and experience that enable them to develop their capabilities and expertise thereby enhancing overall performance.

The Bank's strategic training and development initiatives during 2018 focused on continuing to enhance the skills of all employees by providing high-level training in all functional categories across the Bank's various departments and branches. Around 80% of the Bank's employees attended more than 105 programs with a total of 800 training opportunities provided that focus on Islamic Banking Training, Risk Management, Wealth Management, Corporate and Retail Banking. The Bank has also participated in the 4th Cambridge Islamic Finance Leadership Programme provided by Cambridge International Advisory-London. These cutting-edge training programs reflect the latest developments in banking technology; they also support in engaging employees in specialized activities to augment their qualification and knowledge of banking, and to enhance their work values and ethics in line with Bank Nizwa's vision and aspirations.

Moreover, the Bank also worked on strengthening an internal culture of learning and self-development as it provided study opportunities to a number of employees to obtain University and Professional Qualifications from well-known educational institutions and training centers inside and outside of Oman.

Compensating & Benefits

Bank Nizwa is developing a workforce to optimize the balance between supply and demand for capabilities, and to manage the cost and employee base more efficiently and effectively in the long term. The Bank's strategic plan is pay for performance.

HR has closely monitored the progress of the implementation of the equity, fairness and competitive pay. The Bank has applied performance appraisal system where annual variable and merit pays of the employees linked with the performance system. The objectives were to determine and appreciate different level of employees are linked with individual level of contributions. Considering the market force and its dynamic changes the Bank participates annually in an Industry Salary Survey with an HR professional Service Company to compare its pay position to the market, and to make appropriate decisions based on the results of the survey in order to position Bank pay appropriately.

Moreover, the Bank continuously enhances its' HR systems to help in speeding many HR processes which include payroll, recruitment, training, adhoc payments of employees, and employee self-service.

The bank continuously strives to create sustainable processes to ensure that compensation structures for employees are appropriately aligned with regulatory requirements, and drive sustainable performance at all levels of the Bank.

Information Technology

Information Technology acts as an enabler for core businesses with an aim to achieve the strategic objective of being the top-tier and only Islamic bank for our customers, shareholders and employees. Our journey continues with a strong focus to deliver lower operational cost, build digital capabilities, increase efficiency and automation and customer centric processes to deliver an enhanced customer experience.

The Bank further improved its offering of digital channels by adding Business-2-Business (B2B), Mobile Wallet, and a Remittance service which was enhanced to operate in real time. The efficiency of salary processing was improved by implementing the Salary Management System from CBO. Deployment of high end information security infrastructure and tools ensure the bank's cyber security defense has a highly sophisticated and multilayer capability and provides a high degree of external and internal protection.

Going Forward

The outlook for 2019 is encouraging; particularly improving oil prices as a result of OPEC+ decision to maintain agreement of oil production cut will help supporting prices at stable level. The decision has provided support to the oil price and it is expected that oil will be at an average price of USD 63 per barrel in 2019, in the range of that they were last year average. The Sultanate's economy is projected to achieve a positive growth of 2.6% at constant prices. The International Monetary Fund expects Oman to have the highest growth rate among all GCC countries in 2019.

Oman is on track towards maintaining sustainable growth, following the new reforms and governmental initiatives to diversify sources of revenue while increasing spending in key sectors. In the face of the unprecedented global challenges, the country has remained steady and resilient in creating new opportunities for growth in a wide variety of sectors including infrastructure, healthcare, hospitality, tourism, mining, ports and shipping, logistics and transportation.

Measures introduced by the Government to boost non-oil revenues, supported by an increased efficiency in controls implemented on public expenditure, have notably reduced the budget deficit in recent years. In order to promote economic growth and diversification, the government has considered its investment expenditure as a critical spend, with the purpose of enhancing the investment climate and resultantly enabling private sector to play greater role in investment projects, thereby creating additional job opportunities in the country. The investment spending specifically allocated for infrastructure projects which are overseen by various government units. Allocations have also been earmarked for utilization by State-Owned-Enterprises for the implementation of projects in industrial and services sectors. Such measures will help to boost economic growth and create more jobs. Additionally, the government continues to implement the initiatives recommended by National Program for Enhancing Economic Diversification (Tanfeedh).

Notwithstanding the above, projects and initiatives recommended by Tanfeedh rely to a large extent on the private sector in providing finance and investments required to execute these initiatives. Besides financing certain essential projects, the Government is also taking steps to focus on facilitating procedures designed to improve the business environment and providing support to the respective sectors.

The country's economy and its ability to attract investors and entrepreneurs continues to spur us on the path of success as we progress the bank and the Islamic finance sector to even greater heights in the coming years. We remain confident that the bank will benefit from new reforms and increased government spending, besides development of key sectors.

For the Banking sector, the operating environment is likely to remain challenging in 2019. Credit growth is expected to moderate further, while the pressure on profit margin is likely to persist as funding competition remains keen. Under such circumstances, the focus on our High 5 priorities, which are: 1) Financial Performance; 2) Technological Advancement; 3) Market share; 4) Team and Culture; and 5) Progressive Organization is likely to be intense in 2019 as we aspire to establish a sustainable and efficient operating model for the Islamic Banking industry.

To increase the Bank's returns over the medium term, we need to grow income in a strong, safe and sustainable manner, while maintaining both cost and capital discipline. We will take further steps to realize our potential. In doing so, we will maintain a strict focus on customer satisfaction, risk and profitability. To diversify our business and strengthen our footprint, we will continue our growth strategy. We will grow further, attracting profitable business from both new and existing customers. Although we can't control the external environment, we know we can control our internal framework and we believe Bank Nizwa is well positioned. We have a consistent strategy based on customer focus, we are evolving our capabilities in anticipation of changes in customer preferences, competition and the external environment, and we are creating new growth opportunities through technology and innovation. That will be our approach in the current environment, with more prudent credit underwriting.

We will continue to grow our balance sheet in a controlled manner, through diversification of income sources and expansion of our product and client base. We will further increase our market share in both Wholesale and Retail Banking segments and will strengthen our efforts to diversify the assets and liabilities portfolio to include a broader representation of multiple sectors and segments, and increase fee and commission income by enhancing our Transaction Banking activities.

We will also continue to exercise strict cost-discipline and look for opportunities to tighten our productivity levers across the Bank. To keep ahead and remain relevant to our customers, we will intensify growth digitally by accelerating our customers' migration to our digital platforms, enhancing our distribution channels, improve our cost and capital efficiency to steer the Bank in the right direction and improving our capabilities to offer our customers what they need when they need it and to pursue new revenue streams.

We are investing to create and deliver value for our stakeholders who include investors, customers, employees and the communities we serve as we embarked on the journey to bring Islamic Finance "Closer-to-You", the concept that is as per our mission representing our purpose for existence. Our desire is to meet the ever evolving customer needs by continuously transforming ourselves through digital innovation to better serve our customers in a fast, simple and efficient manner. This concept is meant to demonstrate the clear links between an organization's ability to create value over time through its strategy, technological platform, distribution channels and products to undertake, as it gets all of us within the organization to think about the value creation that we are helping to build for our community.

In closing, I would like to acknowledge that we would not have achieved our milestones in 2018 without the contribution of our employees and I wish to thank them for their commitment to our vision and performance. Our achievements would not have been possible without the support and guidance of the Central Bank of Oman, the Chairman, Sayyid Amjad Al Busaidi, the Vice Chairman Sheikh Ahmed Al Rawahi, the Board of Directors and the Executive Management team for their support, guidance and efforts as we continue our journey to grow our market share. Most importantly, I would also like to express our appreciation to our customers and shareholders for their continued trust, loyalty and support rendered throughout our journey. I look forward to another exciting year ahead.

Khalid Al Kayed
Chief Executive Officer

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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' as set out on pages 6 to 15) for the year ended 31 December 2018.

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'), the guidelines and directives issued by its Shari'a Supervisory Board ('SSB') and Shari'a standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). 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 management Shari'a compliance and governance report is presented and the controls are suitably designed and operating effectively in accordance with the Bank's policies and procedures, guidelines and directives issued by its SSB and the requirements of IBRF.

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.

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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 (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 2018. 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 behavior.

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.

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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 (CONTINUED)

Summary of the work performed (continued)

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;

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 Managment 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 being effective, in all material respects, based on criteria laid down in the 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.

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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 (CONTINUED)

Intended users and purpose (continued)

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 2019
Muscat

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 2018 for the period from 01/01/2018 to 31/12/2018.

We have reviewed the applied principles and contracts relating to the products and services as well as 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 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 2018 for the period from 01/01/2018 to 31/12/2018, 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 realized 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; and
4. Disbursement of Zakat is the responsibility of Shareholders and not the responsibility of the Bank.

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

Sheikh Dr. Abdul Sattar Abu Ghuddah
Chairman of Sharia Supervisory Board

Dr. Sheikh Mohammad bin Rashed Al Gharbi
Member of Sharia Supervisory Board

Sheikh Ibrahim bin Nasser Al Sawwafi
Member of Sharia Supervisory Board

Place and Date: Muscat, 24th of Rabie al Thani, 1440H; Corresponding to 31st December 2018.

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PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK NIZWA SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank Nizwa SAOG (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the related statements of income, cash flows, changes in owner's equity and sources and uses of charity fund for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and the results of the operations, its cash flows, changes in owner's equity and sources and uses of charity fund for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI').

In our opinion, the Bank has also complied with the Islamic Shari'ah Principles and Rules as determined by the Shari'ah Supervisory Board of the Bank during the period under audit.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the *AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions* (AAOIFI Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the AAOIFI Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK NIZWA SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

1. Impairment provision on financing assets subject to credit risk

Key audit matters	How our audit addressed the key audit matters

In accordance with the requirements of Central Bank of Oman's circular BM 1149 dated 13 April 2017, effective from 1 January 2018, the Bank has adopted IFRS 9 which introduced new impairment based on expected credit losses, rather than the incurred loss model previously applied.
 	
At 31 December 2018 the Bank reported total gross financing assets of RO 730.08 million and RO 8.22 million of expected credit loss provisions.
 	
Due to the inherently judgmental nature of the computation of expected credit losses ("ECL") for financing assets, there is a risk that the amount of ECL may be misstated.
 	
On adoption, the Bank has applied the requirement of IFRS 9 retrospectively without restating the comparatives. The difference between previously reported carrying amounts as of 31 December 2017 and new carrying amounts as of 1 January 2018, mainly arising from impairment, has been recognised in opening retained earnings.
 	
The key areas of judgement include:
 	
• The identification of exposure with a significant deterioration in credit quality.
• Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc.
• The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.
 	
The accounting policies relating to estimating impairment provision on financing assets, critical accounting estimates and judgements, and the disclosures relating to impairment of financing assets associated with credit risk are set out in notes 2.6.5, 2.4.1 and 13 to the financial statements.
	Our audit procedures in this area included the following:
	
	• Evaluated the appropriateness of the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9;
	• We performed audit procedures on the opening balances to gain assurance on the transition. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on transition.
	• Obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions;
	• Evaluated Bank's key judgments and estimates made in the ECL computation and involved specialists to assist in evaluating the judgments and estimates relating to probability of default, macro-economic variables and recovery rates;
	• For a sample of exposures, we performed procedures to evaluate:
	  - Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL;
	  - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Bank's staging; and
	  - ECL calculation.
	• Checked the completeness of the financing (including off balance sheets) in the ECL calculation as of 31 December 2018. We understood the theoretical soundness and tested the mathematical integrity of the models;
	• Checked the consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and
	• Considered the adequacy of the disclosures in the financial statements in relation to impairment of financing and other financial assets subject to credit risk as required under IFRS 9.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK NIZWA SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Other information included in the Bank's 2018 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2018 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis
- Basel II Pillar III and Basel III Report of the Bank

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of those charged with governance.

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with AAOIFI and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK NIZWA SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with AAOIFI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of those charged with governance use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK NIZWA SAOG (continued)

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Philip Stanton
Muscat
10 March 2019

ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018	2017
		RO	RO
Assets			
Cash and balances with Central Bank of Oman	4	92,965,571	42,813,968
Due from banks and financial institutions	5	6,399,549	3,464,495
Inter-bank Wakala investments	6	-	16,397,550
Sales receivables and other receivables – net	7	182,268,610	161,398,328
Financial assets at fair value through equity	8	48,040,703	40,721,137
Financial assets at amortised cost	8	1,993,171	7,000,000
Musharaka Financing – net	9	59,880,031	25,726,666
Investment in real estate	10	14,175,000	14,175,000
Ijara Muntahia Bittamleek – net	11	316,397,423	282,774,561
Wakala Bil Istethmar – net	12	137,923,549	91,310,805
Property and equipment – net	14	2,028,586	2,428,106
Intangible assets	15	2,262,273	2,203,452
Other assets	16	7,833,074	6,888,903
Total assets		872,167,540	697,302,971
Liabilities, equity of unrestricted investment accountholders and owners' equity			
Liabilities			
Inter-bank Wakala	17	115,869	19,338,529
Customers' Wakala	18	312,939,005	229,764,141
Customers' accounts	19	75,829,143	68,310,219
Other liabilities	20	23,587,664	21,065,075
Total liabilities		412,471,681	338,477,964
Equity of unrestricted investment accountholders	21	322,507,057	228,075,630
Owners' equity			
Paid-up capital	22	150,000,000	150,000,000
Share premium	23	2,091,192	2,091,192
Investment fair value reserve	24	(1,260,511)	35,746
Legal reserve	24	1,140,782	389,622
Special reserve		-	3,975
Impairment reserve		150,400	-
Accumulated losses		(14,933,061)	(21,771,158)
Total owners' equity		137,188,802	130,749,377
Total liabilities, equity of unrestricted investment accountholders and owners' equity		872,167,540	697,302,971
Net assets per share (RO)	35	0.091	0.087
Contingent liabilities and commitments	25	185,809,278	225,444,814

The financial statements were approved by the Board of Directors on 28 January 2019 and signed on their behalf by:

Amjad bin Mohammed Al Busaidi	**Ahmed bin Saif Al Rawahi**	**Khalid Al Kayed**
Chairman	Vice Chairman	Chief Executive Officer

The attached notes 1 to 42 form part of these financial statements.

STATEMENT OF INCOME

For the year ended 31 December 2018

	Notes	2018	2017
		RO	RO
Sales receivables and other receivables revenue	26	9,945,496	7,426,898
Ijara Muntahia Bittamleek and Ijara assets revenue	27	15,656,659	13,257,819
Profit from Wakala Bil Istethmar		7,528,685	5,135,714
Profit from Musharaka Financing		2,876,521	533,261
Profit from inter-bank Wakala investments	28	170,698	41,905
Profit from financial assets at fair value through equity	29	1,790,083	1,560,420
Income from jointly financed investments and receivables		37,968,142	27,956,017
Return on unrestricted investment accountholders before the Bank's share as Mudarib	30	(15,217,157)	(8,823,698)
Bank's share as Mudarib		7,538,351	4,626,678
Return on unrestricted investment accountholders		(7,678,806)	(4,197,020)
Profit paid on Wakala		(9,707,717)	(7,087,984)
Bank's share in income as Mudarib and Rabul Maal		20,581,619	16,671,013
Bank's income from its own investments and financing	31	1,458,601	1,806,460
Revenue from banking services	32	4,474,271	3,502,184
Foreign exchange gain – net		583,310	412,055
Total revenues		27,097,801	22,391,712
Operating expenses	33	(15,717,795)	(15,263,487)
Depreciation and amortization	14&15	(940,319)	(1,156,129)
Total expenses		(16,658,114)	(16,419,616)
Profit before provisions and tax		10,439,687	5,972,096
Impairment losses / general and specific provision	13	(1,996,969)	(1,926,057)
Profit before tax		8,442,718	4,046,039
Income tax	34	(931,115)	(259,539)
Profit for the year		7,511,603	3,786,500
Earnings per share basic and diluted – (RO)	36	0.005	0.003

The attached notes 1 to 42 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018	2017
	RO	RO
Cash flows from operating activities		
Profit before tax	8,442,718	4,046,039
Adjustments for:		
Depreciation and amortization	940,319	1,156,129
Impairment losses	1,996,969	1,926,057
Other provision	39,541	16,844
Investment risk reserve	153,508	120,584
Profit equalisation reserve	-	(779,239)
Cash flows from operating activities before changes in operating assets and liabilities	11,573,055	6,486,414
Changes in operating assets and liabilities:		
Increase in sales receivables and other receivables	(20,103,658)	(62,014,903)
Increase in Ijara Muntahia Bittamleek assets	(32,441,694)	(48,722,680)
Increase in Musharaka financing	(34,949,585)	(25,179,015)
Increase in Other assets	(1,512,996)	(655,564)
Increase in Customers' accounts	7,518,924	(807,595)
Increase in Other liabilities	976,270	6,967,489
Net cash used in operating activities	(68,939,684)	(123,925,854)
Investing activities		
Increase in investment in financial assets at fair value through equity	(9,920,740)	(18,492,636)
Decrease in investment in financial assets at amortized cost	4,998,000	-
Increase in Wakala Bil Istethmar	(47,869,457)	(28,747,463)
Addition to intangibles assets (net)	(355,007)	(354,872)
Purchase of property and equipment (net)	(244,751)	(215,576)
Disposal of property and equipment	139	9,414
Net cash used in investing activities	(53,391,816)	(47,801,133)
Financing activities		
Increase in unrestricted investment accountholders	95,073,776	69,792,465
Increase in customers' Wakala	83,174,864	105,587,742
Increase in capital deposit with CBO	-	(153,906)
Decreased in Inter-bank Wakala	-	(13,475,000)
Net cash generated from financing activities	178,248,640	161,751,301
Increase /(decrease) in cash and cash equivalents	55,917,140	(9,975,686)
Cash and cash equivalents at the beginning of the year	42,837,483	52,813,169
Cash and cash equivalents at the end of the year	98,754,623	42,837,483
Cash and balances with CBO	92,965,572	42,813,968
Capital deposit with CBO	(500,001)	(500,001)
Due from banks and financial institutions	6,404,921	3,464,495
Inter-bank Wakala investment	-	16,397,550
Inter-bank Wakala less than three months	(115,869)	(19,338,529)
Cash and cash equivalent for the purpose of cash flow statement	98,754,623	42,837,483

The attached notes 1 to 42 form part of these financial statements.

STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2018

	Paid-up capital	Share premium	Investment fair value reserve	Legal reserves	Special reserve	Impairment reserve	Accumulated losses	Total
	RO	RO	RO	RO	RO	RO	RO	RO
Balance at 1 January 2018	150,000,000	2,091,192	35,746	389,622	3,975	-	(21,771,158)	130,749,377
Impact of adopting IFRS 9 at 1 January (note 2.7.1)	-	-	(71,761)	-	-	-	221,991	150,230
Transfer to a non-distributable reserve	-	-	-	-	-	150,230	(150,230)	-
Restated balance at 1 January 2018	150,000,000	2,091,192	(36,015)	389,622	3,975	150,230	(21,699,397)	130,899,607
Investment fair value reserve (net of tax)	-	-	(1,224,496)	-	-	-	-	(1,224,496)
Profit for the year	-	-	-	-	-	-	7,511,603	7,511,603
Legal reserve	-	-	-	751,160	-	-	(751,160)	-
Special reserve	-	-	-	-	(3,975)	-	5,893	1,918
Impairment reserve	-	-	-	-	-	170	-	170
Balance as at 31 December 2018	150,000,000	2,091,192	(1,260,511)	1,140,782	-	150,400	(14,933,061)	137,188,802

	Paid-up capital	Share premium	Investment fair value reserve	Legal reserves	Special reserve	Accumulated losses	Total
	RO	RO	RO	RO	RO	RO	RO
Balance at 1 January 2017	150,000,000	2,091,192	134,314	10,972	-	(25,175,033)	127,061,445
Investment fair value reserve (net of tax)	-	-	(98,568)	-	-	-	(98,568)
Profit for the year	-	-	-	-	-	3,786,500	3,786,500
Legal reserve	-	-	-	378,650	-	(378,650)	-
Special reserve	-	-	-	-	3,975	(3,975)	-
Balance as at 31 December 2017	150,000,000	2,091,192	35,746	389,622	3,975	(21,771,158)	130,749,377

The attached notes 1 to 42 form part of these financial statements.

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2018

	2018	2017
	RO	RO
Sources of charity fund		
Balance as at 1 January	-	17,961
Non-Islamic income for the year	49,308	67,466
Total source	49,308	85,427
Uses of charity fund		
Use of charity fund *	49,308	85,427
Undistributed charity fund as at 31 December	-	-

* The charity fund is utilised by making contribution to organisation which are registered with the Ministry of Awqaf and Religious affairs, namely Family Care Association and Omani Charitable Association.

The attached notes 1 to 42 form part of these financial statements.

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 commenced its operations on 23 December 2012 and currently operates through thirteen 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 Shari'a 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 Shari'a Supervisory Board ("SSB") whose role is defined in Bank's Memorandum and Articles of Association.

At 31 December 2018, the Bank had 353 employees (2017: 336 employees) and its address is: P O Box 1423, Postal Code 133, Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO, the financial statements have been prepared in accordance with Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and other applicable regulations of CBO. In accordance with requirements of AAOIFI, matters that are not covered by FAS, the Bank uses guidance from the relevant International Financial Reporting Standards ("IFRS"). Thus subject to preparation of the financial statements in accordance with FAS issued by AAOIFI, the financial statements comply with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and Capital Market Authority of the Sultanate of Oman. The significant accounting policies are set out in note 3 to the financial statements except for the effects of adoption of IFRS 9, in accordance with the requirements of Central Bank of Oman's circular BM 1149 dated 13 April 2017 as described in Note 2.5 to Note 2.7 to this financial statements.

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 Rial 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 Rial.

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 recognised in the period in which the estimate is revised and in any future periods affected. The significant use of judgments and estimates are as follows:

2. BASIS OF PREPARATION *(continued)*

2.4 Use of estimates and judgements *(continued)*

2.4.1 Financial Instruments (applicable from 1 January 2018)

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

- Assessment of significant Increase in credit risk
- Macro-economic factors, forward looking information and multiple scenarios
- Definition of default
- Expected life

Detail on criteria for significant increase in credit risk, macro-economic factors, forward looking information and multiple factors and definition of default and expected life is given on the note reference 2.6.5 of the financial statement.

2.5 IFRS 9 - Financial Instruments

In accordance with the requirements of Central Bank of Oman's circular BM 1149 dated 13 April 2017, the Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements as of and for the year ended 31 December 2017.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and the opening balance of fair value reserve of the current period.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 "Financial Instruments: Disclosures"

The CBO has issued guidelines relating to implementation of IFRS 9. The relevant requirements relating to transition are set out below:

- Should the existing loan loss impairment computed in accordance with the requirements of IAS 39 and CBO guidelines be higher than the impairment allowance computed under IFRS 9, the related difference (net of tax) be transferred to a loan loss impairment reserve from retained earnings as of 1 January 2018.
- In the subsequent years, where the allowance for loan loss impairment computed in accordance with CBO requirements is higher than the allowance for loan loss impairment loss computed under IFRS 9, the difference (net of tax) should be transferred to the aforementioned loan loss impairment reserve from retained earnings.

The related impairment reserve will not be available for dividend distribution or for inclusion in the regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO.

2. BASIS OF PREPARATION *(continued)*

2.6 Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  a) The determination of the business model within which a financial asset is held.
  b) The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL
  c) The designation of certain investments in equity instruments not held for trading as at FVTE (IFRS 9: FVOCI).

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

In this regard, the Bank has devised a policy for IFRS 9, which is approved by the Board. The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below:

2.6.1 Classification of financial assets

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

a) Fair value through equity (FVTE) which is IFRS 9: FVOCI; or
b) Amortised cost.
c) Fair value through profit or loss (FVTPL);

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

a) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

A debt instrument is measured at FVTE only if it meets both of the following conditions and is not designated as at FVTPL:

a) The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTE as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2.6.2 Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

a) The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profits, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
b) How the performance of the portfolio is evaluated and reported to the Bank's management;

2. BASIS OF PREPARATION *(continued)*

2.6 Transition *(continued)*

2.6.2 Business model assessment (continued)

c) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

d) how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

e) The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

2.6.3 Assessment whether contractual cash flows are solely payments of principal and profits ('SPPP')

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

a) contingent events that would change the amount and timing of cash flows;

b) leverage features;

c) prepayment and extension terms;

d) terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

e) features that modify the profit rates based on the given circumstances.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Investment securities

The 'investment securities' caption in the statement of financial position includes:

a) debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method;

b) debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;

c) debt securities measured at FVTE; and

d) equity investment securities designated as at FVTE.

For debt securities measured at FVTE, gains and losses are recognised in equity, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

a) Profits from the financial assets

b) ECL and reversals; and

c) Foreign exchange gains and losses.

When debt security measured at FVTE is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

2. BASIS OF PREPARATION *(continued)*

2.6 Transition *(continued)*

2.6.3 Assessment whether contractual cash flows are solely payments of principal and profits ('SPPP') (continued)

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in fair value reserve. Cumulative gains and losses recognised in fair value reserve are transferred to retained earnings on disposal of an investment.

2.6.4 Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

2.6.5 Impairment

Policies applicable from 01 January 2018

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

a) financial assets that are debt instruments;

b) financial guarantee contracts issued; and

c) financing commitments issued.

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

a) debt investment securities that are determined to have low credit risk at the reporting date; and

b) other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTE are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

a) significant financial difficulty of the borrower or issuer;

b) a breach of contract such as a default or past due event;

c) the restructuring of a financing or advance by the Bank on terms that the Bank would not consider otherwise;

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e) the disappearance of an active market for a security because of financial difficulties.

A financing that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing exposure that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

a) The market's assessment of creditworthiness as reflected in the Sukuk yields.

b) The rating agencies' assessments of creditworthiness.

c) The country's ability to access the capital markets for new debt issuance.

d) The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

e) The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

2. BASIS OF PREPARATION *(continued)*

2.6 Transition *(continued)*

2.6.5 Impairment (continued)

Calculation of expected credit loss (ECL)

Changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

<u>Assessment of Significant Increase in Credit Risk</u>

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the bank's existing risk management processes.

The bank's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on eleven factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

The Bank will consider a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

a. The remaining Lifetime PD at the reporting date has increased as result of downgrading of internal rating by two notches;
b. Inadequate or unreliable financial and other information such as unavailability of audited financial statement
c. Non-cooperation by the counterparty in matter pertaining to documentation
d. Counterparty is the subject of litigation by third parties that may have a significant impact on his financial position
e. Frequent changes in senior management
f. Intra-group transfer of funds without underlying transactions
g. Deferment/delay in the date for commencement of commercial operations by more than one year
h. Modification of terms resulting in concessions granted to counterparty including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, bank is guided by the extant instructions of CBO in regard to treating an account as restructured.
i. A fall of 25 percent or more in the turnover or in the EBIT as compared to previous year
j. Erosion in net-worth by more than 20 percent as compared to the previous year and coupled with an increase in leverage.
k. A fall in the debt service ratio

IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

<u>Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios</u>

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

2. BASIS OF PREPARATION *(continued)*

2.6 Transition *(continued)*

2.6.5 Impairment *(continued)*

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are closely correlated with credit losses in the relevant portfolio.

The bank estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

The bank base case scenario is based on macroeconomic forecasts using historical information from external sources including impact of portfolio and industry related information. Where worse-case scenario is developed taking the historical information of defaults and is regressed to arrive at forward looking results.

Scenarios are probability-weighted according to the bank best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on an annual basis (if required).

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected life

When measuring ECL, the bank must consider the maximum contractual period over which the bank is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).

The 12 month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

2. BASIS OF PREPARATION *(continued)*

2.6 Transition *(continued)*

2.6.5 Impairment *(continued)*

Based on the above process, the Bank groups its financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1

When financing are first recognised, the Bank recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

Stage 2

When a financing exposure has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 financing exposure also include facilities, where the credit risk has improved and the financing exposure has been reclassified from Stage 3.

Stage 3

Financing exposure considered credit-impaired. The bank records an allowance for the LTECLs.

At initial recognition of a financial asset, the Bank recognises a loss allowance equal to 12-month expected credit losses. After initial recognition, the three stages under the proposals would be applied as follows:

Stage 1

Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset

Stage 3

There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective profit rate (EPR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs

The Bank calculates ECLs based on a two probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EPR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments. As a conservative policy, the Bank has not taken any pre-payment of credit exposure. Had the bank applied early settlement or prepayment, Expected Credit Loss (ECL) would have reduced.

2. BASIS OF PREPARATION *(continued)*

2.6 Transition *(continued)*

***2.6.5 Impairment** (continued)*

- LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. Currently, the bank has applied 45% as LGD value for all credit exposures which is equivalent to LGD of unsecured financing to be on conservative side.

2.7 Standards

2.7.1 Impact of adopting IFRS 9

The impact from the adoption of IFRS 9 as at 1 January 2018 has been decreased accumulated losses by RO 150,230 and decrease the fair value reserve by RO 71,761:

	Accumulated losses	Impairment reserve	Fair value reserve
	RO	RO	RO
Closing balance under IAS 39 (31 December 2017)	**(21,771,158)**	**-**	**35,746**
Impact on reclassification and re-measurements:			
Investment securities (equity) from fair value through equity to those measured at fair value through other comprehensive income	**71,761**	**-**	**(71,761)**
	(21,699,397)	**-**	**(36,015)**
Impact on recognition of Expected Credit Losses			
Expected credit losses under IFRS 9 for due from banks	**(34,680)**	**-**	**-**
Expected credit losses under IFRS 9 for Financing and advances at amortised cost including Financing commitments and financial guarantees	**462,032**	**-**	**-**
Expected credit losses under IFRS 9 for debt securities at fair value through other comprehensive income	**(277,122)**	**-**	**-**
Impact of expected credit loss due to adoption of IFRS 9	**150,230**	**-**	**-**
Transfer to impairment reserve as per circular BM 1149	**(150,230)**	**150,230**	**-**
Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018	**(21,699,397)**	**150,230**	**(36,015)**

Expected credit loss / impairment allowances

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018:

	31 December 2017	Re-measurement	1 January 2018
	RO	RO	RO
Financing to customers, financing and receivables, financing commitments and financial guarantees and amortised cost securities under IAS 39 / financial assets at amortised cost under IFRS 9	6,604,516*	(462,032)	6,142,484
Due from banks	-	34,680	34,680
Fair value through equity debt investment securities under AAOIFI / IAS 39 reclassified to fair value through other comprehensive income under IFRS 9	-	245,490	245,490
Fair value through equity investment securities under IAS 39/debt financial assets at fair value through other comprehensive income under IFRS 9	-	31,632	31,632
	6,604,516	(150,230)	6,454,286

*An amount of RO 665,000 was reclassified to other liabilities.

2. BASIS OF PREPARATION *(continued)*

2.7 Standards *(continued)*

2.7.2 Classification and Measurement of Financial Instruments

The Bank performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 31 December 2017.

						Impact of IFRS 9
	Original classification under AAOIFI / IAS 39	New classification under IFRS 9	Original carrying amount	Re-measurement	Re-classification	New carrying amount
			RO	RO	RO	RO
Financial assets						
Cash and balances with Central bank of Oman	Financing and receivables	Amortised cost	42,813,968	-	-	42,813,968
Due from banks and financial institutions	Financing and receivables	Amortised cost	3,464,495	(9,035)	-	3,455,460
Inter-bank wakala investments	Financing and receivables	Amortised cost	16,397,550	(25,645)	-	16,371,905
Investment securities – debt	Fair value through equity	FVTE (IFRS 9: FVOCI)	35,230,862	(245,490)	-	34,985,372
Investment securities – equity	Fair value through equity	FVTE (IFRS 9: FVOCI)	5,490,275	-	-	5,490,275
Financial assets at amortised cost	Amortised cost	Amortised cost	7,000,000	(31,632)	-	6,968,368
Sales receivables and other receivables – net	Financing and receivables	Amortised cost	161,398,328	(1,553,691)	-	159,844,637
Musharaka Financing – net	Financing and receivables	Amortised cost	25,726,666	(46,649)	-	25,680,017
Ijara Muntahia Bittamleek – net	Financing and receivables	Amortised cost	282,109,561	1,845,477	-	283,955,038
Wakala Bil Istethmar – net	Financing and receivables	Amortised cost	91,310,805	216,895	-	91,527,700
Other assets			3,328,537	-	-	3,328,537
Accrued profit receivable	Financing and receivables	Amortised cost	3,560,366	-	-	3,560,366
Off-balance Sheet Exposures						
Commitments and Financial Guarantees	Commitments and Guarantees	N/A	81,385,388	701,886	-	82,087,274
Unutilized Commitments	Commitments and Guarantees	N/A	144,059,425	1,274,762	-	145,334,187

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 amortised cost at the reporting date.

3.2 Sales receivables and other receivables

- 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.
- Istisna receivables is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna receivables are stated net of deferred profits and provision for impairment.
- Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

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 in a systematic manner.

3.4 Wakala Bil Istethmar

Wakala Bil Istithmar is used as a short to medium and long term working capital financing tool. The Bank, in its capacity as the Principal (hereinafter referred to as the "Muwakkil") appoints the Client as its Agent (hereinafter referred to as the "Wakil") to manage the investment amount (hereinafter referred to as the "Investment Amount") in Shari'a-compliant activities that may be entered into, as agreed, by the Wakil on behalf of the Muwakkil. The prime objective of making such an investment is to generate profit from the business activities and get the Investment Amount paid back along with the profit amount, if any, on the investment maturity date based on the anticipated profit rate Investments.

3.5 Musharaka financing

Diminishing Musharaka is a contract, based on Shirkat-ul-Mulk, between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to a customer (at carrying value).It is a contract in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

3.6 Investments

Investment in Ijarah asset

Operating Ijarah of the Bank as lessee:

Ijarah instalments are allocated over the financial periods of the lease term and recognised in the financial period in which these instalments are due. Ijarah instalments 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.

Debt instruments at FVTE (IFRS 9: FVOCI) (policy applicable from 1 January 2018)

The bank applies the new category under IFRS 9 of debt instruments measured at FVTE when both of the following conditions are met:

Debt instruments at FVTE (IFRS 9: FVOCI) (policy applicable from 1 January 2018) *(continued)*

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments Fair Value Through Equity under FAS 25.

For debt securities measured at FVTE, gains and losses are recognised in equity and upon sale realized through Profit and Loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

When debt security measured at FVTE is derecognised, the cumulative gain or loss previously recognised in fair value reserve is reclassified from equity to profit or loss.

Equity instruments at FVTE (IFRS 9:FVOCI) (Policy applicable from 1 January 2018)

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVTE when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in equity. Equity instruments at FVOCI are not subject to an impairment assessment.

Equity and debt type instruments at fair value through equity (Policy applicable up to 31 December 2017)

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 amortised cost (Policy applicable up to 31 December 2017)

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 instrument at amortised cost, such investment are carried at amortised cost less provisions for impairment in value. Amortisation cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in statement of income when the investment is derecognised or impaired

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 recognised 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.

3.7 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 derecognised 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 derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.8 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".

3.9 Fair value for financial assets

For investments quoted in an active market, fair value is determined by reference to quoted market prices.

For financial instruments where there is no active market, fair value is normally based on comparison with the current market value of highly similar financial instruments.

Where the fair value of an investment cannot be reliably measured, it is stated at the fair value of consideration given or amortised cost and any impairment in the value 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.

3.10 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.

3.11 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	5
Fixtures	10
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.

3.12 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 amortised over 10 years, and amortisation 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.

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.

3.13 Provisions *(Policy applicable up to 31 December 2017)*

Provisions are recognised 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 CBO; Banks are required to record general credit loss provisions as set below:

- 1% of performing corporate financing
- 2% of performing personal financing, 1% home financing
- 0.5% of inter-bank and SMEs

CBO regulations are followed for non-performing assets based on days past due and any profit accrual on these non-performing assets is suspended as per the regulations.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.14 Equity of unrestricted investment accountholders

Equity of unrestricted investment accountholders are recognised 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.

3.15 Profit equalisation reserve

Profit equalisation 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.

3.16 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 utilised are determined and approved by the Shari'a Supervisory Board of the Bank.

3.17 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.

3.18 Offsetting

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

3.19 Revenue recognition

Sales receivables and other receivables

Murabaha profit from sales transactions 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.

Istisna profit from Istisna is recognised using proportionate allocation over the future financial period of credit whereby each financial period shall carry its portion of profits irrespective of whether or not cash received.

Ijara Muntahia Bittamleek Ijara income is recognised on a time apportioned basis over the Ijara term.

Wakala Bil Istethmar

Income from Wakala Bil Istethmar is recognised on a time apportioned basis so as to yield a constant periodic rate of return based on the balance outstanding.

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.

Musharaka

Profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.19 Revenue recognition *(continued)*

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.

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.

3.20 Return on equity of unrestricted investment accountholders

Investors' share of income is calculated based on income generated from joint investment accounts after deducting profit equalisation 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.

3.21 Employee benefits

Obligations for contributions to an unfunded defined benefit retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as an expense in statement of income as incurred.

The Bank'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.

3.22 Directors' remuneration

Director's remuneration is calculated in accordance with the requirements of Commercial Companies Law of 1974, as amended and Capital Market Authority of the Sultanate of Oman.

3.23 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 assesses 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.

3.24 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.

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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.25 Earnings prohibited by Shari'a

The Bank is committed to avoid recognising any income generated from Sharia non-compliant sources. Accordingly, all Shari'a non-complaint income is credited to a charity fund and the Bank disburses these funds according to the Shari'a Supervisory Board supervision and instructions.

3.26 Zakah

Calculation and payment of Zakah is the responsibility of individual Shareholders' and accountholders.

3.27 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of the Bank which meets quarterly and consists of three prominent Shari'a scholars appointed by the General Assembly of Shareholders.

- Dr. Abdul-Sattar Abu Ghuddah	Chairman
- Sheikh Dr. Mohammed Al Gharbi	Member
- Sheikh Ibrahim Al Sawwafi	Member

3.28 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.

3.29 Dividend on ordinary shares

Dividend on ordinary shares is recognised as liability and deducted from equity in the period when it is approved by the Bank's shareholders. Interim dividend is deducted from equity when they are paid.

3.30 Earnings per share (EPS)

The Bank presents basic and diluted earnings per share data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to owners and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.31 New standards, amendments and interpretations

There are no new standards issued by AAOIFI during the year which may impact the financial statements of the Bank.

Standard issued but not yet effective

FAS 28 Murabaha and Other Deferred Payment Sales

AAOIFI has issued FAS 28 Murabaha and Other Deferred Payment Sales in 2017. FAS 28 supersedes the earlier FAS No. 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS No. 20 "Deferred Payment Sale". The objective of this standard is to prescribe the appropriate accounting and reporting principles for recognition, measurement and disclosures in relation to Murabaha and other deferred payment sales transactions for the sellers and buyers, for such transactions. This standard shall be effective for the financial periods beginning on or after 1 January 2019 with early adoption permitted.

The Bank is currently evaluating the impact of this standard.

FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

The Bank is currently evaluating the impact of this standard.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.31 New standards, amendments and interpretations *(continued)*

FAS 35 Risk Reserves

AAOIFI has issued FAS 35 "Risk Reserves" in 2018. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' supersede the earlier FAS 11 "Provisions and reserves".

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves

established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs/ the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Group early adopts FAS 30 "Impairment, Credit losses and onerous commitments".

The Bank is currently evaluating the impact of this standard.

FAS 30 Impairment, Credit losses and onerous commitments

In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments, the standard supersedes the earlier FAS 11 "Provisions and Reserves" effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.

However, during the year 2017, the CBO has issued a circular BM 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments (IFRS 9) for all the banks, which also apply to Islamic banks/windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued.

The Bank adopted IFRS 9 on 1 January 2018 and did not restate the comparative information in accordance with relevant requirements of IFRS 9. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The impact of initial application of IFRS 9 on the Bank's financial statements is set out in note 2.7.1.

The key changes to the bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

(i) Classification and measurement

IFRS 9 contains classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: (a) measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

(ii) Expected credit losses

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The Central Bank of Oman (CBO) has issued guidelines relating to implementation of IFRS 9. The relevant requirements relating to transition are set out below:

- Should the existing financing loss impairment computed in accordance with the requirements of IAS 39 and CBO guidelines be higher than the impairment allowance computed under IFRS 9, the related difference (net of tax) be transferred to a financing loss impairment reserve from retained earnings as of 1 January 2018.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.31 New standards, amendments and interpretations *(continued)*

- In the subsequent years, where the allowance for financing loss impairment computed in accordance with CBO requirements is higher than the allowance for financing loss impairment loss computed under IFRS 9, the difference (net of tax) should be transferred to the aforementioned financing loss impairment reserve from retained earnings.
- The related impairment reserve will not be available for dividend distribution or for inclusion in the regulatory capital. Any subsequent utilisation of the impairment reserve would require prior approval of the CBO.

(iii) Financial liabilities

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

(iv) Hedge accounting

Hedge accounting requirements of IFRS 9 are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Bank does not expect a significant impact as a result of applying IFRS 9.

(v) Disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

3 A Classification of assets and liabilities

	Classification under IFRS 9	Carrying amount as at 31 December 2018	Carrying amount as at 31 December 2017
		RO	RO
Financial assets			
Cash and balances with Central bank of Oman	Amortised cost	**92,965,571**	42,813,968
Due from banks and financial institutions	Amortised cost	**6,399,549**	3,455,460
Inter-bank wakala investments	Amortised cost	**-**	16,371,905
Investment securities – debt	FVTE	**44,280,696**	34,985,372
Investment securities – equity	FVTE	**4,497,671**	5,490,275
Financial assets at amortised cost	Amortised cost	**1,993,171**	6,968,368
Sales receivables and other receivables – net	Amortised cost	**182,268,610**	159,844,637
Musharaka Financing - net	Amortised cost	**59,880,031**	25,680,017
Ijara Muntahia Bittamleek – net	Amortised cost	**316,397,423**	283,955,038
Wakala Bil Istethmar – net	Amortised cost	**137,923,549**	91,527,700
Other assets		**2,251,918**	3,328,537
Accrued profit receivable	Amortised cost	**5,218,866**	3,560,366
Liabilities			
Inter-bank Wakala	Amortised cost	**115,869**	19,338,529
Customers' Wakala	Amortised cost	**312,939,005**	229,764,141
Customers' accounts	Amortised cost	**75,829,143**	68,310,219
Other liabilities	Amortised cost	**23,587,664**	21,065,075
Commitments and Financial Guarantees	N/A	**101,744,155**	81,385,388
Unutilized Commitments	N/A	**84,065,123**	144,059,426

4 Cash and balances with Central Bank of Oman

	2018	2017
	RO	RO
Cash in hand	5,140,355	5,267,318
Balances with Central Bank of Oman	87,325,215	37,046,649
Capital deposit with Central Bank of Oman	500,001	500,001
	92,965,571	42,813,968

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

During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves is RO 18.579 million (2017: RO 15.978 million).

All the above exposures are classified as Stage 1 as at 31 December 2018.

ECL on the cash and balances with Central Banks is not material and accordingly no adjustment has been accounted by the Bank.

5 Due from banks and financial institutions

	2018	2017
	RO	RO
Local banks – local currency	228,668	610,220
Foreign banks – foreign currency	6,176,253	2,854,275
	6,404,921	3,464,495
Less: Impairment losses	(5,372)	N/A
Total	6,399,549	3,464,495

Movement in allowances for the credit losses is set out below:

	2018	2017
	RO	RO
Balance at beginning of year	N/A	N/A
Impact of adopting IFRS 9 - refer note 2.7.1	34,680	N/A
Impairment losses as at 1 January 2018	34,680	N/A
Released/provided during the year	(29,308)	N/A
Total	5,372	N/A

There have been no significant changes in due from banks and financial institutions gross balances, which have contributed to significant changes to the ECL over the year.

6 Inter-bank Wakala investments

	2018	2017
	RO	RO
Local banks – local currency	-	15,000,000
Foreign banks – foreign currency	-	1,397,550
	-	16,397,550
Less: Impairment losses	-	N/A
Total	-	16,397,550

7 Sales receivables and other receivables – net

	Jointly-financed 2018 RO	Self-financed 2018 RO	Total 2018 RO
Sales receivables (Murabaha)- retail	108,866,081	2,053,594	110,919,675
Sales receivables (Murabaha)- corporate	92,667,332	-	92,667,332
Istisna receivables – corporate	5,309,331	-	5,309,331
Ijara rent receivables - retail	40,231	-	40,231
Ijara rent receivables – corporate	331,017	-	331,017
Credit card receivables - Ijarah service (Ujrah)	1,704,089	-	1,704,089
Gross sales receivables and other receivables	208,918,081	2,053,594	210,971,675
Less:			
Deferred profit	(26,670,445)	(212,436)	(26,882,881)
Impairment losses	(1,775,996)	(23,390)	(1,799,386)
Reserved profit	(19,573)	(1,225)	(20,798)
Net sales receivables and other receivables	180,452,067	1,816,543	182,268,610

	Jointly-financed 2017 RO	Self-financed 2017 RO	Total 2017 RO
Sales receivables (Murabaha)- retail	96,932,261	1,961,567	98,893,828
Sales receivables (Murabaha)- corporate	80,533,398	-	80,533,398
Istisna receivables – corporate	5,603,116	-	5,603,116
Ijara rent receivables - retail	2,097,522	-	2,097,522
Ijara rent receivables – corporate	1,299,272	-	1,299,272
Credit card receivables - Ijarah service (Ujrah)	926,001	-	926,001
Gross sales receivables and other receivables	187,391,570	1,961,567	189,353,137
Less:			
Deferred profit	(25,168,312)	(206,751)	(25,375,063)
General provision	(2,404,317)	(35,096)	(2,439,413)
Specific provision	(98,927)	(27,670)	(126,597)
Reserved profit	(12,929)	(807)	(13,736)
Net sales receivables and other receivables	159,707,085	1,691,243	161,398,328

The impairment losses / general and specific provision movement against sales receivables and other receivables is as follow:

	2018 RO	2017 RO
Balance at 1 January	2,566,010	1,846,102
Transition impact IFRS	(957,521)	-
Impairment losses as at 1 January 2018	1,608,489	-
General provision during the year	NA	719,908
Impairment losses during the year	190,897	NA
Balance at 31 December	1,799,386	2,566,010

7 Sales receivables and other receivables – net *(continued)*

The reserved profit movement against sales receivables other receivables is as follow:

	2018	2017
	RO	RO
Balance at 1 January	13,736	8,585
Profit reserved during the year	7,062	5,151
Balance at 31 December	20,798	13,736

Non-performing assets of sales receivables and other receivables, amounted to RO 300,665 representing 0.17% of sales receivables and other receivables-net, as of 31 December 2018 (31 December 2017: 0.22%).

8 Investment securities

	2018	2017
	RO	RO
Investment securities measured at amortised cost (note a)	2,002,000	NA
Investment securities measured at FVTE – debt instruments (note b)	44,499,302	NA
Investment securities designated as at FVTE – equity investments (note c)	3,759,932	NA
Held-to-maturity investment securities	NA	7,000,000
Financial assets at fair value through equity	NA	40,792,898
Total before impairment losses	50,261,234	47,792,898
Less: impairment losses	(227,360)	NA
Less: impairment losses on financial assets at FVTE	NA	(71,761)
	50,033,874	47,721,137

a. **Financial assets at amortised cost**

	Self-financed	
	2018	2017
	RO	RO
Local listed Sukuk	2,002,000	7,000,000
Less: impairment losses	(8,829)	NA
Total local listed Sukuk at amortised cost	1,993,171	7,000,000

b. **Investment securities measured at FVTE – debt instruments**

	2018	2017
	RO	RO
Quoted investments		
Government Sukuk	24,430,853	NA
Corporate Sukuk	4,665,323	NA
Unquoted investments		
Government Sukuk	15,403,126	NA
	44,499,302	NA
Less: impairment losses	(218,531)	NA
	44,280,771	NA

c. **Investment securities measured at FVTE – Equity instruments**

	2018	2017
	RO	RO
Regional un-listed funds	3,435,404	NA
Regional un-listed shares	262,339	NA
Local listed shares	62,189	NA
Total	3,759,932	NA

Financial assets at fair value through equity amounted to RO 40,792,898 as at 31 December 2017 has been re-classified as FVOCI-debt instrument and FVOCI-equity instrument as per the classification criteria set under IFRS 9.

8 Investment securities *(continued)*

d. Financial assets at fair value through equity *(continued)*

	Jointly-financed Cost 2018	Fair value 2018
	RO	RO
International un-listed Sukuk	15,400,082	15,403,126
International listed Sukuk	710,236	706,629
Regional listed Sukuk	2,194,291	2,122,775
Regional un-listed funds	4,577,638	3,435,404
Regional un-listed shares	334,100	262,339
Local rated listed Sukuk	23,438,067	22,308,872
Local Unrated listed Sukuk	3,957,900	3,957,900
Local listed shares	47,838	62,189
Less: impairment losses	NA	(218,531)
Total	**50,660,152**	**48,040,703**

	Cost 2017	Fair value 2017
	RO	RO
International un-listed Sukuk	4,908,750	4,908,766
International listed Sukuk	713,196	704,858
Regional listed Sukuk	6,420,938	6,362,504
Regional un-listed funds	5,054,035	5,134,912
Regional un-listed shares	334,100	334,100
Local listed Sukuk	23,252,015	23,254,734
Local listed shares	56,378	93,024
Impairment loss provision regional un-listed shares	(71,761)	(71,761)
Total	40,667,651	40,721,137

The impairment losses against investments are as follow:

	2018	2017
	RO	RO
Balance at 1 January	-	NA
Transition impact IFRS 9 (note 2.7.1)	277,122	NA
Impairment losses as at 1 January 2018	277,122	NA
Impairment losses during the year	(49,762)	NA
Balance at 31 December	227,360	NA

9 Musharaka financing - net

	Jointly-financed 2018	2017
	RO	RO
Musharaka financing Corporate	60,866,539	25,986,532
Musharaka financing Retail	69,578	-
Less: impairment losses	(1,056,086)	(259,866)
Net investment in Musharaka financing	**59,880,031**	25,726,666

9 Musharaka financing – net *(Continued)*

The Impairment losses / general provision movement against Musharaka as follow:

	2018	2017
	RO	RO
Balance at 1 January	259,866	8,076
Transition impact of IFRS 9	46,649	-
Impairment losses as at 1 January 2018	306,515	-
General provision during the year	NA	251,790
Impairment losses during the year	749,571	NA
Balance at 31 December	1,056,086	259,866

10 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 Bank follows sales comparison and investment approach based valuation methodology and believes that the fair value of investment in real estate is not materially different from its carrying value as at 31 December 2018. The Bank intends to sell the asset at the completion of lease agreement ending 30 June 2023.

11 Ijara Muntahia Bittamleek - net

	2018		
	Jointly-financed	**Self-financed**	**Total**
	RO	RO	RO
Real estate			
Cost	328,320,386	13,270,226	341,590,612
Accumulated deprecation	(35,840,596)	(1,340,573)	(37,181,169)
Net book value	292,479,790	11,929,653	304,409,443
Equipment			
Cost	29,537,762	-	29,537,762
Accumulated deprecation	(15,874,641)	-	(15,874,641)
Net book value	13,663,121	-	13,663,121
Total cost	357,858,148	13,270,226	371,128,374
Accumulated deprecation	(51,715,237)	(1,340,573)	(53,055,810)
Net book value before impairment losses	306,142,911	11,929,653	318,072,564
Less: impairment losses	(1,641,260)	(33,881)	(1,675,141)
Net book value after impairment losses	304,501,651	11,895,772	316,397,423

11 Ijara Muntahia Bittamleek - net *(Continued)*

	2017		
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	282,151,238	11,396,978	293,548,216
Accumulated deprecation	(22,895,312)	(856,981)	(23,752,293)
Net book value	259,255,926	10,539,997	269,795,923
Equipment			
Cost	26,424,806	-	26,424,806
Accumulated deprecation	(10,589,859)	-	(10,589,859)
Net book value	15,834,947	-	15,834,947
Total cost	308,576,044	11,396,978	319,973,022
Accumulated deprecation	(33,485,171)	(856,981)	(34,342,152)
Net book value before general provision	275,090,873	10,539,997	285,630,870
General provision	(2,750,909)	(105,400)	(2,856,309)
Net book value after general provision	272,339,964	10,434,597	282,774,561

The impairment losses / general provision movement against Ijara Muntahia Bittamleek is as follow:

	2018	2017
	RO	RO
Balance at 1 January	**2,856,309**	2,189,425
Transition impact IFRS 9	**(1,310,911)**	-
Impairment losses as at 1 January 2018	**1,545,398**	-
General provision during the year	**NA**	666,884
Impairment losses during the year	**129,743**	NA
Balance at 31 December	**1,675,141**	2,856,309

12 Wakala Bil Istethmar – net

	Jointly-financed	
	2018	2017
	RO	RO
Wakala Bil Istethmar	**140,102,593**	92,233,136
Less: impairment losses	**(2,179,044)**	(922,331)
Wakala Bil Istethmar – net	**137,923,549**	91,310,805

The impairment losses / general provision movement against Wakala Bil Istethmar as follow:

	2018	2017
	RO	RO
Balance at 1 January	**922,331**	634,856
Transition impact IFRS 9	**(216,895)**	-
Impairment losses as at 1 January 2018	**705,436**	-
General provision during the year	**NA**	287,475
Impairment losses during the year	**1,473,608**	NA
Balance at 31 December	**2,179,044**	922,331

13 Impairment losses / general provision and specific provision movement

	2018	2017
	RO	RO
Balance at 1 January	6,604,516	4,678,459
Transition impact IFRS 9	(150,230)	-
Impairment losses as at 1 January 2018	6,454,286	-
Impairment losses / general provision made during the year on sales and other receivables (note 7)	190,897	644,963
Impairment losses / general provision made during the year on Ijara Muntahia Bittamleek (note 11)	129,743	666,884
Impairment losses / general provision made during the year on Wakala Bil Istethmar (note 12)	1,473,608	287,475
Impairment losses / general provision made during the year on Musharaka financing (note 9)	749,571	251,790
Impairment losses made during the year on investments (note 8)	(49,762)	-
Impairment losses made during the year on due to banks (note 5)	(29,308)	-
Impairment losses made during the year on non-funded facilities	(467,780)	-
Specific provision made during the year on sales and other receivables (note 7)	-	74,945
Total impairment losses / general and specific provision expense	1,996,969	1,926,057
Balance at 31 December	8,451,255	6,604,516

14 Property and equipment - net

2018	Furniture & fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Total
	RO	RO	RO	RO	RO	RO
Balance at 1 January	4,341,183	938,076	131,090	1,945,916	-	7,356,265
Additions	92,836	49,941		92,375	9,600	244,752
Disposal	-	(275)	-	-	-	(275)
Balance at 31 December	4,434,019	987,742	131,090	2,038,291	9,600	7,600,742
Accumulated depreciation at 1 January	(2,809,120)	(496,817)	(63,384)	(1,558,838)	-	(4,928,159)
Depreciation expense	(305,687)	(144,481)	(19,663)	(174,302)	-	(644,133)
Disposal	-	136	-	-	-	136
Accumulated depreciation at 31 December	(3,114,807)	(641,162)	(83,047)	(1,733,140)	-	(5,572,156)
Carrying value at 31 December	1,319,212	346,580	48,043	305,151	9,600	2,028,586

2017	Furniture & fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Total
	RO	RO	RO	RO	RO	RO
Balance at 1 January	4,268,624	870,987	167,590	1,858,041	12,792	7,178,034
Additions	72,559	54,672	-	88,345	-	215,576
Transfers	-	12,792	-	-	(12,792)	-
Disposal	-	(375)	(36,500)	(470)	-	(37,345)
Balance at 31 December	4,341,183	938,076	131,090	1,945,916	-	7,356,265
Accumulated depreciation at 1 January	(2,438,208)	(362,626)	(68,361)	(1,203,516)	-	(4,072,711)
Depreciation expense	(370,912)	(134,261)	(22,843)	(355,363)	-	(883,379)
Disposal	-	70	27,820	41	-	27,931
Accumulated depreciation at 31 December	(2,809,120)	(496,817)	(63,384)	(1,558,838)	-	(4,928,159)
Carrying value at 31 December	1,532,063	441,259	67,706	387,078	-	2,428,106

15 Intangible assets

2018	Software	Capital work in progress	Total
	RO	RO	RO
Carrying value at 1 January	**1,808,306**	**395,146**	**2,203,452**
Additions	**285,564**	**69,443**	**355,007**
Transfers	**40,561**	**(40,561)**	**-**
Amortisation	**(296,186)**	**-**	**(296,186)**
Carrying value at 31 December	**1,838,245**	**424,028**	**2,262,273**

2017	Software	Capital work in progress	Total
	RO	RO	RO
Carrying value at 1 January	1,827,211	294,119	2,121,330
Additions	104,446	250,426	354,872
Transfers	149,399	(149,399)	-
Amortisation	(272,750)	-	(272,750)
Carrying value at 31 December	1,808,306	395,146	2,203,452

16 Other assets

	2018	2017
	RO	RO
Deferred tax asset (note 34.3)	**2,108,878**	2,677,703
Profit receivable	**5,218,866**	3,560,366
Advance payment	**12,448**	99,824
Prepaid expense	**307,839**	386,614
Refundable deposits	**83,388**	83,388
Inventory	**44,538**	49,335
Others	**57,117**	31,673
	7,833,074	6,888,903

17 Inter-bank Wakala

	2018	2017
	RO	RO
Local banks – foreign currency	**-**	11,550,000
Foreign banks – foreign currency maturing < 1 year	**115,869**	7,788,529
	115,869	19,338,529

18 Customers' Wakala

Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Sharia compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakkil.

19 Customers' accounts

	2018	2017
	RO	RO
Current accounts	**75,390,316**	67,702,458
Margin accounts	**438,827**	607,761
	75,829,143	68,310,219

20 Other liabilities

	2018	2017
	RO	RO
Payment orders	3,948,130	3,925,700
Creditors and accruals	11,647,401	11,755,939
Profit payable	5,238,333	4,532,723
Allowance for credit loss on non-funded facilities	1,508,866	-
Others	1,244,934	850,713
	23,587,664	21,065,075

21 Equity of unrestricted investment accountholders

	2018	2017
	RO	RO
Unrestricted investment accountholders	322,850,958	227,777,182
Investment fair value reserve	(778,117)	17,740
Investment risk reserve	434,216	280,708
	322,507,057	228,075,630

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.

The Bank has utilised full amount of profit equalisation reserve during the current year.

21.1 Basis of distribution of profit between owners' equity and unrestricted investment accountholders

The investment profits have been distributed between owners' equity and unrestricted investment accountholders for the year 2018 and 2017 as follows:

	2018 Percentage	2017 Percentage
Unrestricted investment accountholders share	50%	50%
Mudarib share	50%	50%

The investment risk reserve at 2 percent is deducted from customers' 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 equalisation 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 equalisation 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		2018 average rate of return	2017 average rate of return
	RO	USD	RO	RO
Saving account	20% - 80%	15% - 30%	0.96%	0.86%
One month tenure	46% - 50%	23%-25%	1.41%	1.38%
Three months tenure	51% - 55%	25.5% - 27.5%	1.53%	1.53%
Six months tenure	61% - 68%	30.5% - 34%	1.90%	1.90%
Nine months tenure	66% - 73%	33% - 36.5%	2.04%	2.04%
One year tenure	71% - 78%	35.5% - 39%	2.44%	2.44%
One year and a half tenure	78.5% - 85%	-	3.21%	3.21%
Two years tenure and above	79.5% - 87%	-	3.79%	3.79%

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.

21.1 Basis of distribution of profit between owners' equity and unrestricted investment accountholders *(continued)*

a. **Equity of unrestricted investment accountholders details**

Account type	2018	2017
	RO	RO
Saving account	213,143,366	137,475,222
Investment accounts:		
One month	165,600	15,000
Three months	838,392	649,418
Six months	1,731,962	2,178,665
Nine months	163,400	181,100
One year	22,279,535	18,277,655
One year and a half	3,345,000	2,092,223
Two years	80,223,637	66,546,681
Three years	222,701	37,486
Four years	17,033	13,039
Five years	210,454	59,543
More than five years	509,878	251,150
	322,850,958	227,777,182

22 Paid-up capital

The authorised 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 2018, no shareholders' of the Bank owned 10% or more of the Bank's paid up capital.

23 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 were netted off.

24 Reserves

24.1 Investment fair value reserve

The fair value reserve includes the cumulative net change in fair value of the investment at fair value through equity.

24.2 Legal reserve

	2018	2017
	RO	RO
1 January	389,622	10,972
Appropriation for the year	751,160	378,650
31 December	1,140,782	389,622

In accordance with the Commercial Company Law of 1974, as amended annual appropriation of 10% of the 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. This reserve is not available for distribution.

24.3 Special reserve

In accordance of Central bank of Oman circular BSD/2017/BKUP/Banks and FLCs/467 dated 20 June 2017 in which banks are required to create Special Reserve of 10% for all restructured financing for 2017 and 15% for 2018. The amount is computed as an appropriation from net profit and is not eligible to be considered for the purpose regulatory capital and dividend distribution.

25 Contingent liabilities and commitments

a) Contingent liabilities

	2018	2017
	RO	RO
Letters of guarantee	73,263,381	53,881,017
Letters of credit	17,124,262	20,071,723
Acceptances	10,596,310	7,328,535
Bills for collection	760,202	104,113
Total contingent liabilities (a)	101,744,155	81,385,388

The table below analysis the concentration of contingent liabilities by economic sector:

	2018	2017
	RO	RO
Construction	41,401,796	31,494,686
Manufacturing	21,836,368	17,219,733
Service	6,892,942	3,830,941
Others	31,613,049	28,840,028
Total contingent liabilities (a)	101,744,155	81,385,388

b) Commitments

	2018	2017
	RO	RO
Unutilised limits	84,065,123	144,059,426
Total commitments (b)	84,065,123	144,059,426
Total contingent liabilities and commitments (a+b)	185,809,278	225,444,814

26 Sales receivables and other receivables revenue

	Jointly-financed	
	2018	2017
	RO	RO
Retail	5,133,105	4,549,407
Corporate	4,812,391	2,877,491
	9,945,496	7,426,898

27 Ijara Muntahia Bittamleek revenue and Ijara assets revenue

	Jointly-financed	
	2018	2017
	RO	RO
Ijara Muntahia Bittamleek – real estate	37,951,810	29,625,508
Ijara Muntahia Bittamleek – equipment	6,762,396	5,580,627
Depreciation on Ijara Muntahia Bittamleek assets	(29,057,547)	(21,948,316)
	15,656,659	13,257,819

28 Profit from inter-bank Wakala investments

	Jointly-financed	
	2018	2017
	RO	RO
Inter-bank Wakala local	**147,395**	29,115
Inter-bank Wakala foreign	**23,303**	12,790
	170,698	41,905

29 Profit from financial assets at fair value through equity

	Jointly-financed	
	2018	2017
	RO	RO
Profit on Sukuk	**1,710,710**	1,214,786
Profit on funds investment	**87,801**	320,672
(losses) Gains on sale of Sukuk	**(11,350)**	95,340
Gain on sale of shares	**2,922**	1,383
Impairment loss provision on FVTE	**-**	(71,761)
	1,790,083	1,560,420

30 Return on unrestricted investment accountholders before the Bank's share as a Mudarib

	2018	2017
	RO	RO
Saving accounts	**8,156,999**	3,915,592
Investment accounts	**6,906,650**	5,566,761
Investment risk reserve	**153,508**	120,584
Profit equalisation reserve	**-**	(779,239)
	15,217,157	8,823,698

31 Bank's income from its own investments and financing

	2018	2017
	RO	RO
Rental income from investment in real estate	**799,000**	1,134,000
Profit from financial assets at amortised cost	**308,194**	355,832
Sales receivables revenue	**53,911**	59,247
Ijara Muntahia Bittamleek revenue - net of depreciation	**297,639**	253,670
Gain from selling fixed assets	**(143)**	3,711
	1,458,601	1,806,460

32 Revenue from banking services

	2018	2017
	RO	RO
Commissions income	**938,527**	763,231
Processing fees	**2,349,033**	1,912,849
Service charges	**1,186,711**	826,104
	4,474,271	3,502,184

33 Operating expenses

	2018	2017
	RO	RO
Staff cost	10,853,969	10,291,130
Rent expense	887,863	889,129
Advertisement	684,730	601,058
Operational leasing	122,950	132,522
Maintenance expense	713,157	749,920
Security and cleaning	243,472	258,712
Professional and consulting charges	186,982	167,366
Boards expenses	115,272	123,673
Government fee	174,790	204,865
Printing and stationery	93,646	79,382
Telephone, electricity and water	359,640	469,949
Traveling expense	70,779	50,070
Subscription expense	72,631	124,529
Cards expense	711,780	724,051
Others	426,134	397,131
	15,717,795	15,263,487

34 Income tax

34.1 Recognised in the statement of income

Deferred income tax	931,115	259,539

The Bank is subject to income tax at the rate of 15% of taxable profits (2017 - 15%). The tax losses are available to carry forward for a period of 5 years and will be utilised against the future taxable profits.

34.2 Reconciliation

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	31 December 2018	31 December 2017
	RO	RO
Profit as per financial statements	8,442,718	4,046,039
Tax asset at the rate mentioned above	1,266,408	606,906
Non-deductible expenses and other permanent differences	95,153	(8,428)
Deferred tax recognised from previous years	(430,446)	(338,939)
Total	931,115	259,539

34.3 Net deferred tax asset routed through statement of income are attributable to the following items:

Deferred tax asset are attributable to the following items:

	As at 1 Jan 2018	Recognised in income	Unrecognised in income	As at 31 Dec 2018
	RO	RO	RO	RO
Property, plant and equipment	(381,758)	95,660	-	(286,098)
General provision	144,715	(144,715)	-	-
Other provision	103,328	(75,285)	-	28,043
Losses carried forward	2,811,418	(806,775)	-	2,004,643
Net deferred tax asset	2,677,703	(931,115)	-	1,746,588

Deferred tax assets and liabilities routed through owner's equity is attributable to investment fair value reserve as of 31 December 2018 amounted to RO 362,290.

34 Income tax *(continued)*

34.3 Net deferred tax asset routed through statement of income are attributable to the following items:

	As at 1 Jan 2017	Recognized in income	Unrecognized in income	As at 31 Dec 2017
	RO	RO	RO	RO
Property, plant and equipment	(370,503)	(11,255)	-	(381,758)
General provision	221,303	(76,588)	-	144,715
Other provision	7,057	96,271	-	103,328
Losses carried forward	3,418,324	(606,906)	-	2,811,418
Deferred tax recognized from previous years	-	338,939	(338,939)	-
Net deferred tax asset	3,276,181	(259,539)	(338,939)	2,677,703

35 **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

	2018	2017
	RO	RO
Net assets (RO)	**137,188,802**	130,749,377
Number of shares outstanding (note 22)	**1,500,000,000**	1,500,000,000
Net assets per share	**0.091**	0.087

36 Earnings per share- basic and diluted

The calculation of basic and diluted earnings per share is based on the profit for the year attributable to ordinary shareholders is as follows:

Profit for the year (RO)	**7,511,603**	3,786,500
Weighted average number of shares outstanding during the year	**1,500,000,000**	1,500,000,000
Earnings per share- basic and diluted (RO)	**0.005**	0.003

Earnings per share- basic and diluted has been derived by dividing profit for the year attributable to the shareholders' by weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is same as the basic earnings per share.

37 Segment reporting

For management purposes, the Bank is organised into three operating segments based on business units and are as follows:

Retail banking offers various products and facilities to individual customers to meet everyday banking needs.

Corporate banking delivers a variety of products and services to corporate and SMEs customers that includes financing, accepting deposits, trade finance and foreign exchange.

Treasury and investment banking provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk, in addition to asset management corporate advisory and investment products high net worth individuals and institutional clients.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on an overall basis and are not allocated to operating segments.

37 Segment reporting *(continued)*

Segment information is as follows:

31 December 2018	Retail banking RO	Corporate banking RO	Treasury & investment RO	Others RO	Total RO
Total revenue (joint)	16,773,563	19,234,797	1,959,782	-	37,968,142
Return on unrestricted investment accountholders	(4,368,387)	(3,656,617)	-	346,198	(7,678,806)
Profit paid on Wakala	(1,750,617)	(7,786,389)	(170,711)	-	(9,707,717)
Bank's share in income from investment as a Mudarib and Rabul Maal	10,654,559	7,791,791	1,789,071	346,198	20,581,619
Bank's income from its own investments and financing	351,407	-	1,107,194	-	1,458,601
Other operating income	1,299,572	3,456,157	301,852	-	5,057,581
Total revenue	12,305,538	11,247,948	3,198,117	346,198	27,097,801
Staff cost	(7,234,699)	(2,830,108)	(789,162)	-	(10,853,969)
Other operating expense	(3,154,263)	(1,299,412)	(410,151)	-	(4,863,826)
Depreciation and amortisation	(749,910)	(156,368)	(34,041)	-	(940,319)
Total expense	(11,138,872)	(4,285,888)	(1,233,354)	-	(16,658,114)
Profit before provisions and tax	1,166,666	6,962,060	1,964,763	346,198	10,439,687
Impairment losses	(571,757)	(1,425,212)	-	-	(1,996,969)
Profit before tax	594,909	5,536,848	1,964,763	346,198	8,442,718
Income tax	-	-	-	(931,115)	(931,115)
Profit for the year	594,909	5,536,848	1,964,763	(584,917)	7,511,603
Total assets	344,394,395	352,062,859	163,573,994	12,136,292	872,167,540
Total liabilities and equity of unrestricted investment accountholders	326,894,023	384,725,083	115,869	23,243,763	734,978,738

37 Segment reporting *(continued)*

31 December 2017	Retail banking RO	Corporate banking RO	Treasury & investment RO	Others RO	Total RO
Total revenue (joint)	14,155,802	12,197,829	1,602,386	-	27,956,017
Return on unrestricted investment accountholders	(1,090,069)	(3,106,951)	-	-	(4,197,020)
Profit paid on Wakala	(698,052)	(5,813,686)	(576,246)	-	(7,087,984)
Bank's share in income from investment as a Mudarib and Rabul Maal	12,367,681	3,277,192	1,026,140	-	16,671,013
Bank's income from its own investments and financing	316,628	-	1,489,832	-	1,806,460
Other operating income	889,262	2,613,008	411,969	-	3,914,239
Total revenue	13,573,571	5,890,200	2,927,941	-	22,391,712
Staff cost	(6,827,280)	(1,861,510)	(1,602,340)	-	(10,291,130)
Other operating expense	(3,333,058)	(744,846)	(894,453)	-	(4,972,357)
Depreciation and amortisation	(850,429)	(181,228)	(124,472)	-	(1,156,129)
Total expense	(11,010,767)	(2,787,584)	(2,621,265)	-	(16,419,616)
Profit before provision and tax	2,562,804	3,102,616	306,676	-	5,972,096
General and specific provision	(605,162)	(1,155,895)	(165,000)	-	(1,926,057)
Profit before tax	1,957,642	1,946,721	141,676	-	4,046,039
Income tax	-	-	-	(259,539)	(259,539)
Profit after tax	1,957,642	1,946,721	141,676	(259,539)	3,786,500
Total assets	296,927,626	264,282,734	124,572,150	11,520,461	697,302,971
Total liabilities and equity of unrestricted investment accountholders	201,643,602	324,506,389	19,338,529	21,065,075	566,553,595

38 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.

38 Financial instruments *(continued)*

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 categorised 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	**44,561,491**	**3,697,743**	**-**	**48,259,234**
Investment in real estate	**-**	**-**	**14,175,000**	**14,175,000**
Total financial assets at 31 December 2018	**44,561,491**	**3,697,743**	**14,175,000**	**62,434,234**

	Level 1	Level 2	Level 3	Total
	RO	RO	RO	RO
Financial assets at fair value through equity	35,323,886	5,397,251	-	40,721,137
Investment in real estate	-	-	14,175,000	14,175,000
Total financial assets at 31 December 2017	35,323,886	5,397,251	14,175,000	54,896,137

39 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 impairment losses has been established in respect of the financing given to related parties.

31 December 2018	**Principal shareholders**	**Sharia'a Board**	**Senior management**	**Total**
	RO	**RO**	**RO**	**RO**
Sales receivables & other receivables	**91,047**	**12,101**	**194,995**	**298,143**
Ijara Muntahia Bittamleek	**469,009**	**78,052**	**945,824**	**1,492,885**
Wakala Bil Istethmar	**9,000,000**	**-**	**-**	**9,000,000**
Customers' accounts	**856,030**	**665**	**20,826**	**877,521**
Unrestricted investment accountholders / Customers' wakala	**5,764,683**	**34,997**	**8,097**	**5,807,777**

31 December 2017	Principal shareholders	Sharia'a Board	Senior management	Total
	RO	RO	RO	RO
Sales receivables & other receivables	311,095	15,731	90,085	416,911
Ijara Muntahia Bittamleek	1,598,966	80,977	552,635	2,232,578
Wakala Bil Istethmar	1,200,000	-	-	1,200,000
Customers' accounts	1,110,079	167	401,042	1,511,288
Unrestricted investment accountholders / Customers' wakala	9,303,444	10	237	9,303,691

39 Related party transactions *(continued)*

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

31 December 2018	**Principal shareholders**	**Sharia'a Board**	**Senior management**	**Total**
	RO	**RO**	**RO**	**RO**
Profit account	**296,284**	**5,117**	**27,647**	**329,048**
Commission income	**112**	**-**	**-**	**112**
Operating expenses				
- Staff expense	**-**	**-**	**1,513,520**	**1,513,520**
- Other expenses	**60,811**	**54,461**	**-**	**115,272**

31 December 2017	Principal shareholders	Sharia'a Board	Senior management	Total
	RO	RO	RO	RO
Profit account	66,543	4,895	18,941	90,379
Commission income	160	-	6	166
Operating expenses				
- Staff expense	-	-	1,111,957	1,111,957
- Other expenses	64,050	59,623	-	123,673

40 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

40 Financial risk management *(continued)*

Credit risk *(continued)*

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 Standardardized approach.

With the recent adoption of IFRS 9 standards, credit risk management has been enhanced further where more attributes have been taken into consideration, including but not limited, identifying existing emerging key risks related to industry, economics, transaction structure, terms and condition of the payments etc in assessment of ECL.

In addition to this, the Bank has also employed statistical model to incorporate related macro-economic factors including historical default rates. In absence of some important parameters or the where the information is too much deviated from the present forecast, qualitative PD overlay is used by the management after analysing the portfolio as per diagnostic tool.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank uses mathematical function which links the GDP with PD as a key input to ECL. These economic variable and their associated impact on the PD, EAD and LGD vary by financial instrument.

Types of credit risk

Credit risk arises mainly on sales receivables and other receivables, Ijara Muntahia Bittamleek, Wakala Bil Istethmar, Musharaka financing, due from banks, investment in Sukuk and securities, investments in real-estate and interbank wakala.

Sales receivable and other receivables

The Bank finances these transactions based on two structures:

1) Murabaha: In this structure, the Bank buys 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.

2) Istisna: This is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna is stated net of deferred profits and provision for impairment.

Ijara Muntahia Bittamleek

This is a lease whereby the legal title 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, the utmost care is taken before taking any exposure.

Musharaka financing

Musharaka means relationship established under a contract by a mutual consent of parties for profits and losses arising from a joint enterprise or venture. Investments come from all partners/shareholders and profits are distributed in the proportion mutually agreed in the contract. If one or more partners choose to become non-working or silent partners, the ratio of their profit cannot exceed the ratio which their capital investment bears to the total capital investment in Musharaka. Under the arrangement, both partners mutually agree to contribute capital for the Musharaka business activity and share any profit arising from the Asset or business activities according to a pre-agreed ratio, while loss is borne proportionate to their respective capital contribution.

40 Financial risk management *(continued)*

Credit risk *(continued)*

Capital from the Bank (finance amount) can either be disbursed as a lump-sum amount or staggered through progressive payments, as mutually agreed by both parties in the agreement. The Musharaka Asset is co-owned by the Bank and the client proportionate to their respective capital contribution. In such a transaction, the Bank takes a risk in the Musharaka Asset to an extent of its share / capital contribution in it. The Bank's exposure (and hence the associated risk) continues to reduce over the life of the transaction, as the customer buys back units of the Bank's ownership share in the Musharaka Asset.

In case of a loss, the Bank bears the loss equivalent to its share / capital contribution in the Musharaka Asset. However, this is applicable subject to the fact that the loss has not occurred due to the gross negligence or wilful misconduct of the customer, as the Musharaka Manager, in which case, the customer shall solely be responsible for the entire loss.

The analysis of credit portfolio is given below:

(a) **Geographical concentrations**

	Assets			Liabilities		
	Gross due from banks and Interbank Wakala investment	Gross financing	Gross investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2018	RO	RO	RO	RO	RO	RO
Sultanate of Oman	228,668	728,446,699	28,330,962	711,619,106	-	181,687,242
Other GCC countries	1,322,178	1,636,250	5,820,517	-	-	2,997,326
Europe and North America	4,831,179	-	706,629	-	-	263,450
Africa and Asia	22,896	-	15,403,126	-	115,869	861,260
Total	6,404,921	730,082,949	50,261,234	711,619,106	115,869	185,809,278

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2017	RO	RO	RO	RO	RO	RO
Sultanate of Oman	15,610,219	591,310,758	30,347,758	525,851,542	11,550,000	214,478,975
Other GCC countries	2,707,747	1,892,917	11,759,755	-	7,700,000	2,772,990
Europe and North America	1,471,414	-	-	-	-	4,270,267
Africa and Asia	72,665	-	5,613,624	-	88,529	3,922,582
Total	19,862,045	593,203,675	47,721,137	525,851,542	19,338,529	225,444,814

40 Financial risk management *(continued)*

Credit risk *(continued)*

(b) **Customer concentrations**

	Assets			Liabilities		
2018	**Due from banks and Interbank Wakala investment**	**Gross Financing**	**Investments in Sukuk and securities**	**Current, unrestricted IAH and customer Wakala**	**Interbank Wakala**	**Contingent liabilities and commitments**
	RO	RO	RO	RO	RO	RO
Personal	-	362,849,412	-	302,198,023	-	90,593
Corporate	6,404,921	367,233,537	10,427,255	91,789,759	115,869	183,482,547
Government	-	-	39,833,979	317,631,324	-	2,236,138
Total	6,404,921	730,082,949	50,261,234	711,619,106	115,869	185,809,278

	Assets			Liabilities		
2017	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	-	316,307,269	-	201,467,257	-	35,712
Corporate	19,862,045	276,896,406	22,680,255	40,855,418	19,338,529	206,409,102
Government	-	-	25,040,882	283,528,867	-	19,000,000
Total	19,862,045	593,203,675	47,721,137	525,851,542	19,338,529	225,444,814

(c) **Economic sector concentrations**

	Assets			Liabilities		
	Due from banks and interbank Wakala	**Gross financing**	**Investments in Sukuk and securities**	**Current, unrestricted IAH and customer Wakala**	**Interbank Wakala**	**Contingent liabilities and commitments**
31 December 2018	RO	RO	RO	RO	RO	RO
Personal	-	362,849,412	-	302,198,023	-	-
Construction	-	129,127,832	-	7,751,332	-	63,861,729
Manufacturing	-	74,022,907	-	-	-	21,836,368
Financial services	6,404,921	-	706,629	-	115,869	-
Government	-	-	39,833,979	317,631,324	-	2,236,138
Other services	-	128,981,237	-	4,960,499	-	30,307,659
Others	-	35,101,561	9,720,626	79,077,928	-	67,567,384
	6,404,921	730,082,949	50,261,234	711,619,106	115,869	185,809,278

40 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations *(continued)*

	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2017	RO	RO	RO	RO	RO	RO
Personal	-	316,307,269	-	201,467,257	-	35,712
Construction	-	55,268,843	-	2,532,312	-	65,606,155
Manufacturing	-	52,141,605	-	3,361,125	-	33,847,672
Financial services	19,862,045	-	704,858	-	19,338,529	-
Government	-	-	25,040,882	283,528,867	-	19,000,000
Other services	-	37,172,759	-	1,424,800	-	12,826,432
Others	-	132,313,199	21,975,397	33,537,181	-	94,128,843
	19,862,045	593,203,675	47,721,137	525,851,542	19,338,529	225,444,814

(d) Gross credit exposure

	2018	2017
	RO	RO
Gross financing	**730,082,949**	593,203,675
Due from banks and interbank Wakala	**6,404,921**	19,862,045
Investments in Sukuk and securities	**50,261,234**	47,721,137
Total	**786,749,104**	660,786,857

(e) Geographical distribution of exposures:

	Sultanate of Oman	**Other countries**	**Total**
31 December 2018	**RO**	**RO**	**RO**
Gross Sales receivables and other receivables	**210,971,674**	**-**	**210,971,674**
Gross Ijarah Muntahia Bittamleek	**316,436,314**	**1,636,250**	**318,072,564**
Gross Musharaka financing	**60,936,118**	**-**	**60,936,118**
Gross Wakala Bil Istethmar	**140,102,593**	**-**	**140,102,593**
Investments in Sukuk and securities	**28,330,962**	**21,930,272**	**50,261,234**
Due from banks and interbank Wakala	**228,668**	**6,176,253**	**6,404,921**
Total	**757,006,329**	**29,742,775**	**786,749,104**

	Sultanate of Oman	Other countries	Total
31 December 2017	RO	RO	RO
Gross Sales receivables and other receivables	189,353,137	-	189,353,137
Gross Ijarah Muntahia Bittamleek	283,737,953	1,892,917	285,630,870
Gross Musharaka financing	25,986,532	-	25,986,532
Gross Wakala Bil Istethmar	92,233,136	-	92,233,136
Investments in Sukuk and securities	30,347,758	17,373,379	47,721,137
Due from banks and interbank Wakala	15,610,219	4,251,826	19,862,045
Total	637,268,735	23,518,122	660,786,857

40 Financial risk management *(continued)*

Credit risk *(continued)*

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

2018	Due from banks and interbank Wakala RO	Gross Sales receivables and other receivables RO	Gross Ijarah Muntahia Bittamleek RO	Gross Musharaka financing	Gross Wakala Bil Istethmar RO	Investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
Construction	-	11,556,762	43,078,564	876,980	73,615,527	-	129,127,833	63,861,729
Electricity, gas and water	-	20,304,332	1,414,639	551,673	25,823,723	-	48,094,367	10,973,452
Financial institutions	6,404,921	-	-	-	-	706,629	7,111,550	-
Services	-	15,051,010	11,130,396	35,076,026	17,993,188	-	79,250,620	19,334,207
Personal financing	-	112,661,022	250,118,812	69,578	-	-	362,849,412	-
Government	-	-	-	-	-	39,833,979	39,833,979	2,236,138
Non-resident financing	-	-	1,636,250	-	-	-	1,636,250	-
Others	-	51,398,549	10,693,903	24,361,860	22,670,155	9,720,626	118,845,093	89,403,752
Total	6,404,921	210,971,675	318,072,564	60,936,117	140,102,593	50,261,234	786,749,104	185,809,278

2017	Due from banks and interbank Wakala RO	Gross Sales receivables and other receivables RO	Gross Ijarah Muntahia Bittamleek RO	Gross Musharaka financing	Gross Wakala Bil Istethmar RO	Investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
Construction	-	8,424,567	10,634,998	1,033,914	35,175,364	-	55,268,843	65,606,155
Electricity, gas and water	-	24,047,289	1,206,534	-	27,558,249	-	52,812,072	34,430,842
Financial institutions	19,862,045	-	-	-	-	704,858	20,566,903	-
Services	-	13,403,343	2,249,690	17,645,290	3,874,436	-	37,172,759	12,826,432
Personal financing	-	101,917,352	214,389,917	-	-	-	316,307,269	-
Government	-	-	-	-	-	25,040,882	25,040,882	19,000,000
Non-resident financing	-	-	1,892,917	-	-	-	1,892,917	-
Others	-	41,560,586	55,256,814	7,307,328	25,625,087	21,975,397	151,725,212	93,581,385
Total	19,862,045	189,353,137	285,630,870	25,986,532	92,233,136	47,721,137	660,786,857	225,444,814

40 Financial risk management *(continued)*

Credit risk *(continued)*

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

2018	Gross due from banks and interbank Wakala RO	Gross sales receivables and other receivables RO	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO	Gross Musharaka financing RO	Gross Wakala Bil Istethmar RO	Gross investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
Upto 1 month	6,404,921	7,796,226	2,135,123	308,312	17,070,912	58,779	33,774,273	8,890,935
1 to 3 months	-	15,030,935	7,056,488	2,518,071	18,287,006	15,403,126	58,295,626	28,710,075
3 to 6 months	-	19,063,323	6,069,297	1,653,474	28,026,452	-	54,812,546	44,812,813
6 to 9 months	-	14,461,163	6,379,744	2,365,778	22,946,684	706,629	46,859,998	3,535,452
9 to 12 months	-	13,473,806	6,473,926	1,919,804	17,122,255	6,556,270	45,546,061	87,535,566
1 to 3 years	-	73,756,263	51,066,115	17,403,814	17,758,887	1,718,525	161,703,604	7,401,082
3 to 5 years	-	39,422,044	48,335,127	15,280,387	16,110,604	-	119,148,162	2,355,469
Over 5 years	-	27,967,915	190,556,744	19,486,477	2,779,793	25,817,905	266,608,834	2,567,886
	6,404,921	210,971,675	318,072,564	60,936,117	140,102,593	50,261,234	786,749,104	185,809,278

2017	Due from banks and interbank Wakala RO	Gross sales receivables and other receivables RO	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO	Gross Musharaka financing RO	Gross Wakala Bil Istethmar RO	Investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
Upto 1 month	19,862,045	5,449,979	1,766,917	39,691	16,499,319	10,431,751	54,049,703	49,521,661
1 to 3 months	-	12,383,038	6,186,156	707,821	15,187,640	3,850,154	38,314,809	22,235,199
3 to 6 months	-	14,284,252	5,129,593	231,021	11,962,594	-	31,607,460	12,308,442
6 to 9 months	-	16,388,337	5,432,637	641,537	13,183,375	-	35,645,886	15,981,073
9 to 12 months	-	13,273,026	5,759,645	287,827	9,363,108	-	28,683,606	73,707,913
1 to 3 years	-	56,185,513	50,824,625	4,344,826	9,829,222	1,325,080	122,509,266	32,397,295
3 to 5 years	-	40,377,760	46,360,271	4,136,122	13,917,003	8,469,318	113,260,474	8,313,201
Over 5 years	-	31,011,232	164,171,026	15,597,687	2,290,875	23,644,834	236,715,653	10,980,030
	19,862,045	189,353,137	285,630,870	25,986,532	92,233,136	47,721,137	660,786,857	225,444,814

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

31 December 2018	Performing financing RO	Non-performing financing RO	Impairment losses under stage III held RO	Impairment losses under stage I and II Held RO
Personal financing	362,674,359	155,053	128,973	883,186
Non-resident corporate financing	1,636,250	-	-	7,549
Resident corporate financing	365,471,675	145,612	68,896	5,621,053
	729,782,284	300,665	197,869	6,511,788

31 December 2017	Performing financing RO	Non-performing financing RO	Specific provisions held RO	General provisions held RO
Personal financing	316,307,269	159,027	73,632	4,510,067
Non-resident corporate financing	1,892,917	-	-	18,929
Resident corporate financing	275,003,489	188,362	52,965	2,613,923
	593,203,675	347,389	126,597	7,142,919

40 Financial risk management *(continued)*

Credit risk *(continued)*

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

31 December 2018	Performing financing RO	Non-performing financing RO	Impairment losses under stage III held RO	Impairment losses under stage I and II Held RO
Sultanate of Oman	728,146,034	300,665	197,869	6,504,239
Other countries	1,636,250	-	-	7,549
Total	729,782,284	300,665	197,869	6,511,788

31 December 2017	Performing financing RO	Non-performing financing RO	Specific provisions held RO	General provisions held RO
Sultanate of Oman	591,310,758	347,389	126,597	7,123,990
Other countries	1,892,917	-	-	18,929
Total	593,203,675	347,389	126,597	7,142,919

(j) Maximum exposure to credit risk without consideration of collateral held:

	2018 RO	2017 RO
Due from banks and interbank Wakala investments	6,404,921	19,862,045
Investment in Sukuk and securities	50,261,234	47,721,137
Gross Financing	730,082,949	593,203,675
	786,749,104	660,786,857
Off-balance sheet items		
Financial guarantee	73,263,381	53,881,017
Financial letter of credits	17,124,262	20,071,723
Acceptances	10,596,310	7,328,535
Bills for collection	760,202	104,113
Commitments	84,065,123	144,059,426
	185,809,278	225,444,814

40 Financial risk management *(continued)*

Credit risk *(continued)*

(k) Movement in ECL

	Stage 1	Stage 2	Stage 3	Total
	RO	RO	RO	RO
Exposure subject to ECL (gross) 1 January 2018				
Gross financing, commitments and financial guarantees	745,117,371	47,798,399	346,610	793,262,380
Investment securities	35,230,787	-	-	35,230,787
Financial assets at amortised cost	7,000,000	-	-	7,000,000
Interbank wakala investments	16,397,550	-	-	16,397,550
Due from banks, central banks and other financial assets	3,464,495	-	-	3,464,495
	807,210,203	47,798,399	346,610	855,355,212
Expected credit loss - as at 1 January 2018	(4,142,619)	(2,164,768)	(146,899)	(6,454,286)
Exposure subject to ECL (Net) - as at 1 January 2018	803,067,584	45,633,631	199,711	848,900,926
Opening Balance (Day 1 impact) - as at 1 January 2018				
Gross financing, commitments and financial guarantees	741,286,554	45,633,631	199,711	787,119,896
Investment securities	34,985,296	-	-	34,985,296
Financial assets at amortised cost	6,968,368	-	-	6,968,368
Interbank wakala investments	16,371,905	-	-	16,371,905
Due from banks, central banks and other financial assets	3,455,461	-	-	3,455,461
	803,067,584	45,633,631	199,711	848,900,926
Exposure subject to ECL (gross) 31 December 2018				
Gross financing, commitments and financial guarantees	795,315,463	93,386,915	286,170	888,988,548
Investment securities	44,499,226	-	-	44,499,226
Financial assets at amortised cost	2,002,000	-	-	2,002,000
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	6,404,921	-	-	6,404,921
	848,221,610	93,386,915	286,170	941,894,695
Net transfer between stages				
Gross financing, commitments and financial guarantees	50,198,091	45,588,516	(60,440)	95,726,167
Investment securities	9,268,365	-	-	9,268,365
Financial assets at amortised cost	(4,998,000)	-	-	(4,998,000)
Interbank wakala investments	(16,397,550)	-	-	(16,397,550)
Due from banks, central banks and other financial assets	2,940,426	-	-	2,940,426
	41,011,332	45,588,516	(60,440)	86,539,408
Charge for the period (net)				
Gross financing, commitments and financial guarantees	675,367	1,349,702	50,970	2,076,039
Investment securities	(26,959)	-	-	(26,959)
Financial assets at amortised cost	(22,803)	-	-	(22,803)
Interbank wakala investments	(25,645)	-	-	(25,645)
Due from banks, central banks and other Financial assets	(3,663)	-	-	(3,663)
	596,297	1,349,702	50,970	1,996,969

40 Financial risk management *(continued)*

Credit risk *(continued)*

(k) Movement in ECL

	Stage 1	Stage 2	Stage 3	Total
	RO	RO	RO	RO
Closing Balance - as at 31 December 2018				
Gross financing, commitments and financial guarantees	790,809,278	89,872,445	88,301	880,770,024
Investment securities	44,280,696	-	-	44,280,696
Financial assets at amortized cost	1,993,171	-	-	1,993,171
Interbank wakala investments	-	-	-	-
Due from banks, central banks and other financial assets	6,399,549	-	-	6,399,549
	843,482,694	89,872,445	88,301	933,443,440

Exposure at default methodology

The exposure at default is used to measure the lifetime expected credit losses and 12-month expected credit losses. The Bank measures expected credit losses at a client level for wholesale banking and at pool level for retail. It also includes expected credit losses on the undrawn commitment component from those on the financing component. It recognizes expected credit losses for the undrawn commitment together with the loss allowance for the financing component in the statement of financial position. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses is presented as a provision. For undrawn commitment, Credit Conversion Factor (CCF) to convert commitment to on-balance sheet where cancellable limits have 20% CCF and for uncancellable committed facility has 100%. For all off-balance sheet exposure, CCF is applied according to the type of facility.

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. In addition to this, the Bank also monitors and report liquidity in line with Basel III ratios that includes Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR).

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required ("Required stable funding") of a bank is a function of the liquidity characteristics and residual maturities of the various assets held by the Bank as well as those of its off-balance sheet (OBS) exposures.

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.

40 Financial risk management *(continued)*

Credit risk *(continued)*

(l) Credit quality

The credit quality of financial assets is managed by the Bank using internal and external credit risk ratings. The Bank follows an internal rating mechanism for grading relationship across its credit portfolio. The Bank utilizes a scale ranging from 1 to 10 for credit relationship with 1 to 7 denoting performing grades, 8, 9 and 10 denoting non-performing. All credits are assigned a rating in accordance with defined criteria.

The Bank endeavours continuously to improve upon internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Bank. All financing relationships are reviewed at least once in a year and more frequently in case of non-performing assets.

Credit quality analysis

The following table provides the details for the credit quality:

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Financial Assets subject to ECL					
Performing Grades (Grade 1 to 7)					
Gross Financing Amount including off-balance sheet	795,315,462	93,386,915	-	888,702,377	565,031,373
ECL on Financing	(4,506,185)	(3,514,470)	-	(8,020,655)	(4,019,330)
Gross Investments	46,501,227	-	-	46,501,227	47,721,137
ECL on Investments	(227,360)	-	-	(227,360)	-
Gross Interbank	6,404,921	-	-	6,404,921	16,397,550
ECL on Interbank	(5,372)	-	-	(5,372)	-
Carrying Amount	843,482,693	89,872,445	-	933,355,138	625,130,730
Non-performing (Grade 8 - 10)					
Gross Financing Amount including off-balance sheet	-	-	286,170	286,170	344,824
ECL on Financing	-	-	(197,868)	(197,868)	(146,507)
Gross Investments	-	-	-	-	-
ECL on Investments	-	-	-	-	-
Gross Interbank	-	-	-	-	-
ECL on Interbank	-	-	-	-	-
Carrying Amount	-	-	88,302	88,302	198,318
Total Gross Financing Amount including off-balance sheet	795,315,462	93,386,915	286,170	888,988,547	565,376,197
Total ECL on Financing	(4,506,185)	(3,514,470)	(197,868)	(8,218,523)	(4,165,837)
Total Gross Investments	46,501,227	-	-	46,501,227	47,721,137
Total ECL on Investments	(227,360)	-	-	(227,360)	-
Total Gross Interbank	6,404,921	-	-	6,404,921	16,397,550
Total ECL on Interbank	(5,372)	-	-	(5,372)	-
Total Net Carrying Amount	843,482,693	89,872,445	88,302	933,443,440	625,329,047

40 Financial risk management *(continued)*

Liquidity risk *(continued)*

(l) Credit quality

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The most significant period-end assumptions used for the ECL estimate as at Dec 31, 2018 were GDP and CPI. (GDP 2019: 2.89%, 2020: 2.2%) and (CPI 2018: 106.4)

Maturity profile of assets and liabilities

	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
31 December 2018	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	92,465,570	-	-	-	500,001	92,965,571
Inter-bank Wakala and Due from banks	6,399,549	-	-	-		6,399,549
Financing to customers - net	26,497,293	93,683,599	80,879,872	263,438,136	231,970,713	696,469,613
Financial assets at fair value through equity	58,779	15,403,126	5,260,899	1,718,525	25,599,374	48,040,703
Financial assets at amortised cost	-	-	1,993,171	-	-	1,993,171
Investment in real estate	-	-	-	14,175,000	-	14,175,000
Intangible asset					2,262,273	2,262,273
Property and equipment					2,028,586	2,028,586
Other assets	104,397	480,457	319,959	3,465,931	3,462,330	7,833,074
Total assets	125,525,588	109,567,182	88,453,901	282,797,592	265,823,277	872,167,540
Interbank Wakala	115,869	-	-	-	-	115,869
Customer accounts, Wakala and unrestricted accountholders	51,800,770	119,560,191	150,075,457	258,580,144	130,824,427	710,840,989
Other liabilities	-	3,948,130	4,282,421	10,433,132	4,923,981	23,587,664
Investment risk and profit equalization reserve	-	-	-	-	434,216	434,216
Owners' equity	-	-	-	-	137,188,802	137,188,802
Total liabilities, equity of unrestricted investment accountholders and owners' equity	51,916,639	123,508,321	154,357,878	269,013,276	273,371,426	872,167,540
Net gap	73,608,949	(13,941,139)	(65,903,977)	13,784,316	(7,548,149)	-
Cumulative net gap	73,608,949	59,667,810	(6,236,167)	7,548,149	-	-

40 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

	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
31 December 2017						
Cash and balances with Central Bank of Oman	42,313,967	-	-	-	500,001	42,813,968
Inter-bank Wakala and Due from banks	19,862,045	-	-	-	-	19,862,045
Financing to customers - net	23,140,226	62,287,336	60,103,140	211,424,184	204,255,474	561,210,360
Financial assets at fair value through equity	10,431,751	3,850,154	-	2,794,398	23,644,834	40,721,137
Financial assets at amortized cost	-	-	-	7,000,000	-	7,000,000
Investment in real estate	-	-	14,175,000	-	-	14,175,000
Intangible asset	-	-	-	-	2,203,452	2,203,452
Property and equipment	-	-	-	-	2,428,106	2,428,106
Other assets	86,931	488,881	202,026	3,820,733	2,290,332	6,888,903
Total assets	95,834,920	66,626,371	74,480,166	225,039,315	235,322,199	697,302,971
Interbank Wakala	2,013,529	17,325,000	-	-	-	19,338,529
Customer accounts, Wakala and unrestricted accountholders	23,586,681	59,618,832	128,956,122	216,822,354	96,885,293	525,869,282
Other liabilities	5,544,238	3,925,700	10,683,982	246,155	665,000	21,065,075
Investment risk and profit equalization reserve	-	-	-	-	280,708	280,708
Owners' equity	-	-	-	-	130,749,377	130,749,377
Total liabilities, equity of unrestricted investment accountholders and owners' equity	31,144,448	80,869,532	139,640,104	217,068,509	228,580,378	697,302,971
Net gap	64,690,472	(14,243,161)	(65,159,938)	7,970,806	6,741,821	-
Cumulative net gap	64,690,472	50,447,311	(14,712,627)	(6,741,821)	-	-

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 standardized 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.

40 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

	2018	2017
	RO	RO
Net assets denominated in US Dollars	**6,505,640**	4,563,547
Net assets denominated in other foreign currencies	**4,919,410**	(2,295,757)

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 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 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

	2018	2017
	RO	RO
+200 bps	**3,676,701**	3,281,878
+100 bps	**1,838,351**	1,640,939
-200 bps	**(3,676,701)**	(3,281,878)
-100 bps	**(1,838,351)**	(1,640,939)

40 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 re-pricing of assets and that of the corresponding liability. The Bank manages these mismatches by risk policy guidelines and reduces risk by matching the re-pricing of assets and liabilities

31 December 2018	Due on demand and within 30 days RO	Due within 1 to 6 months RO	Due within 6 to 12 months RO	Due within 1 to 5 years RO	Due after 5 years RO	Non-profit bearing RO	Total RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	92,965,571	92,965,571
Inter-bank Wakala and Due from banks	-	-	-	-	-	6,399,549	6,399,549
Financing to customers – net	207,680,168	101,349,278	90,038,414	233,253,880	64,147,873	-	696,469,613
Financial assets at fair value through equity	-	15,403,126	470,702	1,718,525	25,942,571	4,505,779	48,040,703
Financial assets at amortized cost	-	-	1,993,171	-	-	-	1,993,171
Investment in real estate	-	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	-	2,262,273	2,262,273
Property and equipment	-	-	-	-	-	2,028,586	2,028,586
Other assets	-	-	-	-	-	7,833,074	7,833,074
Total assets	207,680,168	116,752,404	92,502,287	234,972,405	90,090,444	130,169,832	872,167,540
Interbank Wakala	-	-	-	-	-	115,869	115,869
Customer accounts, Wakala and unrestricted accountholders	35,666,508	92,093,721	101,006,990	294,054,067	109,883,366	78,136,337	710,840,989
Other liabilities	-	-	-	-	-	23,587,664	23,587,664
Investment risk and profit equalisation reserve	-	-	-	-	434,216	-	434,216
Shareholders' equity	-	-	-	-	-	137,188,802	137,188,802
Total liabilities and shareholders' equity	35,666,508	92,093,721	101,006,990	294,054,067	110,317,582	239,028,672	872,167,540
On-balance sheet gap	172,013,660	24,658,683	(8,504,703)	(59,081,662)	(20,227,138)	(108,858,840)	
Cumulative profit sensitivity gap	172,013,660	196,672,343	188,167,640	129,085,978	108,858,840	-	

40 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk (continued)

Profit rate sensitivity gap (continued)

31 December 2017	Due on demand and within 30 days RO	Due within 1 to 6 months RO	Due within 6 to 12months RO	Due within 1 to 5 years RO	Due after 5 years RO	Non-profit bearing RO	Total RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	42,813,968	42,813,968
Inter-bank Wakala and Due from banks	16,397,550	-	-	-	-	3,464,495	19,862,045
Financing to customers - net	136,415,232	81,159,071	80,151,364	199,458,493	64,026,200	-	561,210,360
Financial assets at fair value through equity	4,908,458	3,850,154	-	9,794,398	16,644,858	5,523,269	40,721,137
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	-	2,203,452	2,203,452
Property and equipment	-	-	-	-	-	2,428,106	2,428,106
Other assets	29,181	160,017	89,337	1,237,562	2,044,086	3,328,720	6,888,903
Total assets	157,750,421	85,169,242	80,240,701	217,490,453	82,715,144	73,937,010	697,302,971
Interbank Wakala	1,925,000	17,325,000	-	-	-	88,529	19,338,529
Customer accounts, Wakala and unrestricted accountholders	9,438,427	35,922,972	45,011,722	288,601,015	78,584,928	68,310,218	525,869,282
Other liabilities	-	-	-	-	-	21,065,075	21,065,075
Investment risk and profit equalisation reserve	-	-	-	-	280,708	-	280,708
Shareholders' equity	-	-	-	-	-	130,749,377	130,749,377
Total liabilities and shareholders' equity	11,363,427	53,247,972	45,011,722	288,601,015	78,865,636	220,213,199	697,302,971
On-balance sheet gap	146,386,994	31,921,270	35,228,979	(71,110,562)	3,184,508	(145,611,189)	
Cumulative profit sensitivity gap	146,386,994	178,308,264	213,537,243	142,426,681	145,611,189	-	

40 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk (continued)

(a) **Equity risk**

Bank is exposed to the volatility in the prices of the securities (i.e. Sukuk and Shares) 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.

40 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 year ended 31 December 2018 and 2017 as follows:

Capital structure	2018	2017
	RO	RO
TIER I CAPITAL		
Paid up capital	150,000,000	150,000,000
Share premium	2,091,192	2,091,192
Legal reserve	1,140,782	389,622
Accumulated losses	(14,933,061)	(21,771,158)
Fair value gains or losses on financial assets at fair value through equity	(2,526,792)	(123,463)
Less: Intangible assets	(2,262,273)	(2,203,452)
Deferred tax asset	(1,746,588)	(2,677,703)
Total Tier I capital	131,763,260	125,705,038
TIER II CAPITAL		
Fair value gains on financial assets at fair value through equity	56,643	79,627
Impairment losses / General provision	7,142,919	7,142,919
Total Tier II capital	7,199,562	7,222,546
Total eligible capital	138,962,822	132,927,584
Risk weighted assets		
Credit risk	797,090,550	716,089,507
Market risk	16,589,498	22,391,617
Operational risk	42,002,222	32,302,324
Total	855,682,270	770,783,448
Tier I capital	131,763,260	125,705,038
Tier II capital	7,199,562	7,222,546
Total regulatory capital	138,962,822	132,927,584
Tier I capital ratio	15.40%	16.31%
Total capital ratio	16.24%	17.25%
Common Equity Tier 1 (CET1)	131,763,260	128,705,038
Common Equity Tier 1 ratio	15.40%	16.31%

40 Financial risk management *(continued)*

Liquidity coverage ratio (LCR) and Net-Stable Funding Ratio (NSFR)

The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations requires banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. The Bank current LCR ratio as of Dec 31, 2018 stands at 1569.344% (Dec 31, 2017: 114.76%) and NSFR stands at 126.82% (Dec 31, 2017: 133.19%).

41 Comparison of provision held as per IFRS 9 and required as per CBO norms

(a) Standard, special mention and non-performing Financing accounts

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms	Net Amount as per IFRS 9
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)
	Stage 1	764,671,876	7,497,204	3,118,593	4,378,611	757,174,672	761,553,283
	Stage 2	56,777,746	322,474	1,350,452	(1,027,978)	56,455,272	55,427,294
Standard	Stage 3	-	-	-	-	-	
Subtotal		**821,449,622**	**7,819,678**	**4,469,045**	**3,350,633**	**813,629,944**	**816,980,577**
	Stage 1	30,643,587	219,639	1,387,592	(1,167,953)	30,423,948	29,255,995
	Stage 2	36,609,169	222,867	2,164,018	(1,941,151)	36,386,302	34,445,151
Special Mention	Stage 3	-	-	-	-	-	-
Subtotal		**67,252,756**	**442,506**	**3,551,610**	**(3,109,104)**	**66,810,250**	**63,701,146**
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Substandard	Stage 3	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Doubtful	Stage 3	96,718	51,424	80,092	(28,668)	45,294	16,626
Subtotal		96,718	51,424	80,092	(28,668)	45,294	16,626
	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
Loss	Stage 3	189,452	137,817	117,776	20,041	51,635	71,676
Subtotal		**189,452**	**137,817**	**117,776**	**20,041**	**51,635**	**71,676**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	52,906,147	-	232,732	(232,732)	52,906,147	52,673,415
	Stage 2	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-
Subtotal		**52,906,147**	**-**	**232,732**	**(232,732)**	**52,906,147**	**52,673,415**
	Stage 1	**848,221,610**	**7,716,843**	**4,738,917**	**2,977,926**	**840,504,767**	**843,482,693**
	Stage 2	**93,386,915**	**545,341**	**3,514,470**	**(2,969,129)**	**92,841,574**	**89,872,445**
Total All	Stage 3	**286,170**	**189,241**	**197,868**	**(8,627)**	**96,929**	**88,302**
Total		**941,894,695**	**8,451,425**	**8,451,255**	**170**	**933,443,270**	**933,443,440**

41 Comparison of provision held as per IFRS 9 and required as per CBO norms *(Continued).*

(b) Restructured accounts

There is no restructured case as at 31 December 2018 that is required to be reported.

(c) Non-performing financing ratio

	31 December 2018		
	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	-	-	-
Provisions required as per CBO norms/held as per IFRS 9	8,451,425	8,451,255	(170)
Gross NPA ratio	0.04	0.04	-
Net NPA ratio	0.01	0.01	-

42 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.

EY
Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

Report on factual findings to the Board of Directors of Bank Nizwa SAOG (the "Bank") in respect of Basel II - Pillar III and Basel III related Disclosures

We have performed the procedures agreed with you and as prescribed in Title 5 of the Islamic Banking Regulatory Framework, Central Bank of Oman (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Bank Nizwa SAOG (the "Bank") as at and for the year ended 31 December 2018. The disclosures were prepared by the Bank's management in accordance with the related requirements set out in Title 5 of the Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. 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 Title 5 of Islamic Banking Regulatory Framework and Circular number BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the Bank's compliance with the related disclosure requirements as set out in Title 5 of Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006 and Circular No. 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 the 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. This report relates only to the accompanying disclosures to be included in the Bank's annual report for the year ended 31 December 2018 and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

Ernst & Young LLC

Muscat
10 March 2019

ارنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

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 2017 financials.

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 that 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

(a) **Total Interest in Takaful Entities: The Bank holds 0.49% 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 the Bank 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:

	2018	2017
	RO	RO
(a) Tier I Capital		
Paid up capital	**150,000,000**	150,000,000
Share premium	**2,091,192**	2,091,192
Legal Reserve	**1,140,782**	389,622
Accumulated Losses	**(14,933,061)**	(21,771,158)
Net Fair value losses on financial assets at fair value through equity	**(2,526,792)**	(123,463)
Less: Intangible Assets, Including Losses, Cumulative Unrealized Losses Recognized Directly In Equity	**(2,262,273)**	(2,203,452)
Less: Deferred Tax Assets	**(1,746,588)**	(2,677,703)
Total Tier I capital	**131,763,260**	125,705,038
(b) Tier II Capital		
Impairment Losses/General provision	**7,142,919**	7,142,919
Fair value gains on financial assets at fair value through equity	**56,643**	79,627
Total Tier II capital	**7,199,562**	7,222,546
Total eligible capital	**138,962,822**	132,927,584

(c) Unrestricted Investment Account and Related Reserves	2018	2017
	RO	RO
Amount of unrestricted Investment Accountholder (IAH) Funds	**322,850,958**	227,777,182
Investment fair value reserve	**(778,117)**	17,740
Profit Equalization Reserve (PER)	**-**	-
Investment Risk Reserve (IRR)	**434,216**	280,708

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 on capital to shareholders or issue 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 Standardized 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 and Basel III, for the year ended Dec-31, 2018 is 16.24% (Dec-31, 2017:17.25%)

(a) Capital Requirements	2018 RO		2017 RO	
	Risk Weighted Assets (RWA)	Capital Requirement	Risk Weighted Assets (RWA)	Capital Requirement
Credit Risk	797,090,550	102,625,408	716,089,507	99,357,419
Market Risk	16,589,498	2,135,898	22,391,617	3,106,837
Operational Risk	42,002,222	5,407,786	32,302,324	4,481,947
Total	855,682,270	110,169,092	770,783,448	106,946,203

(b) Capital Requirements	2018	2017
Details	**RO**	**RO**
Tier I Capital (after supervisory deductions)	131,763,260	125,705,038
Tier II capital (after supervisory deductions & up to eligible limits)	7,199,562	7,222,546
Risk Weighted Assets – Banking Book	813,680,048	738,481,124
Risk Weighted Assets – Operational Risk	42,002,222	32,302,324
Total Risk Weighted Assets – Banking Book + Operational Risk	855,682,270	770,783,448
Minimum required capital to support RWAs of banking book & operational risk	110,169,092	102,128,807
i) Minimum required Tier I Capital for banking book & operational risk	**102,969,530**	**94,906,261**
ii) Tier II Capital required for banking book & operational risk	**7,199,562**	**7,222,546**
Tier I capital available for supporting Trading Book	**28,793,730**	30,798,777
Tier II capital available for supporting Trading book	-	-
Risk Weighted Assets – Trading Book	-	-
Total capital required to support Trading Book	-	-
Minimum Tier I capital required for supporting Trading Book	-	-
Total Regulatory Capital	**138,962,822**	132,927,584
Total Risk Weighted Assets – Whole bank	**855,682,270**	770,783,448
Common Equity Tier 1 (as a percentage of risk weighted assets)	**15.40%**	16.31%
Tier 1 (as a percentage of risk weighted assets)	**15.40%**	16.31%
Total capital (as a percentage of risk weighted assets)	**16.24%**	17.25%

(c) Capital Adequacy Ratio	2018	2017
	RO	RO
Total Risk Weighted Assets (RWA)	**855,682,270**	770,783,448
Total Eligible Capital	**138,962,822**	132,927,584
Capital Adequacy Ratio	**16.24%**	17.25%
(d) Ratio of Total and Tier 1 Capital to Total RWA		
Tier 1 Capital	**131,763,260**	125,705,038
Total Capital	**138,962,822**	132,927,584
Total RWA	**855,682,270**	770,783,448
Ratio of Total Capital	**16.24%**	17.25%
Ratio of Tier 1 Capital	**15.40%**	16.31%
Ratio of CET 1 Capital	**15.40%**	16.31%

(e) Ratio of Total Capital to Total Assets		
Total Capital	**138,962,822**	132,927,584
Total Assets	**872,167,540**	697,302,971
Total Capital to Total Assets	**15.93%**	19.06%

f) Disclosure of Capital Requirements according to different risk categories for each shari'a compliant financing

	2018			2017		
	RO	RO	RO	RO	RO	RO
	Credit risk	Market risk	Risk Weighted Assets	Credit risk	Market risk	Risk Weighted Assets
Ijara Muntahia Bittamleek	19,825,998	-	153,988,331	26,200,862	-	188,835,041
Sales Receivable and Other Receivables	21,431,663	-	166,459,516	22,286,087	-	160,620,449
Wakala Bil Istethmar	35,515,314	-	275,847,098	25,594,695	-	184,466,272
Musharaka Financing	7,709,554		59,880,031	9,735,204	-	70,163,636
Letter of Guarantees	8,256,623	-	64,129,109	3,737,996	-	26,940,509
Letter of Credit	462,678	-	3,593,613	559,879	-	4,035,167
Acceptance and Bills for Collection (Wakala)	1,462,151	-	11,356,513	1,016,834	-	7,328,535
Total	94,663,980		735,254,211	89,131,558		642,389,609

(g) 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 17.

5. Disclosures for Investment Accountholders (IAH)

5.1 Qualitative Disclosure

- The Bank offers Unrestricted Investment Accounts based on fully sharia compliant concept of Mudaraba and Wakala.
- 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 Shari'a compliant investments opportunities. Such information is available for all customers at Bank's website, branches and call center.
- Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Shari'a compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakil.
- 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:

	2018	2017
	Percentage	Percentage
Unrestricted investment accounts share	50%	50%
Mudarib share	50%	50%

The investment risk reserve at 2 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 Shari'a guidelines.

5.2 Quantitative Disclosure

The related disclosure of Unrestricted Investment Account is given below:

a) PER to PSIA Ratio

	2018	2017
	RO	RO
Amount of Total PER	-	-
Amount of PSIA by IAH	322,850,958	227,777,182
PER to PSIA Ratio	0%	0%

b) IRR to PSIA Ratio

	2018	2017
	RO	RO
Amount of Total IRR	434,216	280,708
Amount of PSIA by IAH	322,850,955	227,777,182
IRR to PSIA Ratio	0.13%	0.12%

c) Return on Assets (ROA)

	2018	2017
	RO	RO
Amount of Total Net Income (before distribution of profit to unrestricted IAH)	37,968,142	27,956,017
Total Amount of Assets	872,167,540	696,637,971
Return on Assets (ROA)	4.35%	4.01%

d) Return on Equity (ROE)

	2018	2017
	RO	RO
Amount of total net income (after distribution of profit to IAH)	20,581,619	16,671,013
Amount of shareholders' equity	137,188,802	130,749,377
Return on Equity (ROE)	15.00%	12.75%

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

As of reporting date the Bank has return on Unrestricted Investment Accountholder and distributed profit amounting OMR 7,678,806 (Dec 2017: OMR 4,197,020) during the period to Investment Accountholders.

f) Ratios of financing to PSIA by type of IAH

As of reporting date, all jointly financing is funded by comingled pool which includes funds from Unrestricted Investment Accountholder (including Mudaraba and Wakala) and Shareholders.

Gross Financing by type of contract	2018		2017	
	RO	%	RO	%
Sales Receivables and Other Receivables	210,971,675	28.90%	189,353,137	31.92%
Ijarah Muntahia Bittamleek	318,072,564	43.57%	285,630,870	48.15%
Musharaka financing	60,936,118	8.35%	25,986,532	4.38%
Wakala Bil Istethmar	140,102,592	19.19%	92,233,136	15.55%
Total Financing	730,082,949	100.00%	593,203,675	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 a single pool of comingled assets where the funds of investment accountholders are invested and income is allocated to such accounts.

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

	2018	2017
	Percentage	Percentage
Unrestricted investment accounts share	50%	50%
Mudarib share	50%	50%

- The investment risk reserve at 2 per cent 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

Account type	2018	2017
	RO	RO
Saving account	213,143,366	137,475,222
Investment accounts:		
One month	165,600	15,000
Three months	838,392	649,418
Six months	1,731,962	2,178,665
Nine months	163,400	181,100
One year	22,279,535	18,277,655
One year and a half	3,345,000	2,092,223
Two years	80,223,637	66,546,681
Three years	222,701	37,486
Four years	17,033	13,039
Five years	210,454	59,543
More than five years	509,878	251,150
	322,850,958	227,777,182

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

	2018	2017
	RO	RO
Share of profits	7,678,806	4,197,020
funds invested	322,850,958	227,777,182
Ratio	2.37%	1.84%

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

	2018	2017
	RO	RO
Share of profits	7,525,298	4,855,675
funds invested	322,850,958	227,777,182
Ratio	2.33%	2.13%

d) Movements on PER and IRR during the year

During the reporting year the Bank utilized ZERO (Dec-17: 779,239) from PER. However, the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to OMR Zero (Dec 2017: OMR Zero).

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 153,508 (Dec 2017: OMR 120,584).

Following is the movement of IRR and PER:

	2018		2017	
	PER	IRR	PER	IRR
Beginning Balance at the beginning of the year	-	280,708	779,239	160,124
Additions	-	153,508	-	120,584
Transferred	-	-	(779,239)	-
Balance at the end of the year	-	434,216	-	280,708

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

There was no utilization in PER (2017: OMR 779,239) and IRR (2017: Zero) during the year.

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

	2018	2017	2016	2015	2014
	RO	RO	RO	RO	RO
Profit Earned	37,968,142	27,956,017	17,981,771	10,063,445	5,537,082
Profit Distributed	7,678,806	4,197,020	1,195,473	896,195	243,609
Funds Invested	322,850,958	227,777,182	157,984,717	73,597,787	42,280,807
Return as % of Funds Invested	2.37%	1.84%	0.760%	1.220%	0.580%

g) Amount of total administrative expenses charged to unrestricted IAH

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

h) Average declared rate of return or profit rate on unrestricted PSIA by maturity (1-month, 3-month, 6-month, 9-month, 12-months, 18-months and 24 months)

	2018	2017
Account type	Average rate of return	Average rate of return
Mudaraba Saving account	0.96%	*0.86%*
One month tenure	1.41%	*1.38%*
Three months tenure	1.53%	*1.53%*
Six months tenure	1.90%	*1.90%*

Nine months tenure	2.04%	*2.04%*
One year tenure	2.44%	*2.44%*
Eighteen month tenure	3.21%	*3.21%*
Two year tenure	3.79%	*3.79%*

i) **Changes in asset allocation in the last six months**
There are no significant changes in the last six months of reporting date.

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

	2018	2017
Off-balance sheet items	RO	RO
Financial guarantee	**73,263,381**	53,881,017
Financial letter of credits	**17,124,262**	20,071,723
Acceptances	**10,596,310**	7,328,535
Bills for collection	**760,202**	104,113
Commitments	**84,065,123**	144,059,426
Total	**185,809,278**	225,444,814

k) **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. Unrestricted Wakala Investment Accounts

7.1 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 are invested and income from which is allocated to such accounts according to the nature of agreement.

7.2 Quantitative Disclosure

a) **Computation of Pool income is as follows:**

Item RO	**2018**	**2017**
Pool Income from Financing	**36,007,361**	26,353,692
Income from Investments	**1,960,781**	1,602,325
Total Pool Income	**37,968,142**	27,956,017
Profit Equalization Reserve	**-**	779,239
Investment risk reserve	**(153,508)**	(120,584)
Pool Income	**37,968,142**	27,956,017
Mudarib fee	**(7,538,351)**	(4,626,678)
Movement to or from PER/IRR	**-**	779,239
Total amount paid to IAH Mudaraba	**(7,525,298)**	(4,855,675)
Total amount attributable to shareholders pool including Wakala	**22,904,493**	19,252,903

8. Restricted Investment Accounts

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

9. Retail Investor-Oriented Disclosures for Investment Accounts

The Bank offers Unrestricted Investment Accounts in OMR, USD, AED only and maturity periods in OMR ranging from 1 month, 3 months, 6 months, 9 months, 12 months, 18 months, 24 months, 36 months, 48 months, 60 months, 84 months and 120 months 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

9.1 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 Account Product

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

In case of Mudaraba Investment Account 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 Accountholders 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 Accountholders, 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 Accounts shall be assigned weightages, based on the features of the Mudaraba Investment Account 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 Accountholders 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 Account 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 Shari'a 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 Shari'a 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 Shari'a 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 Shari'a 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:

- o (Average Investment amount x Aggregate weightages given to the shareholders and investors) for each category of investors.
- o 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 compensated 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, 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 compensated 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, 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 their share of profit or part of their equity in favor of the investors to cover such losses

10. Risk Management, Risk Exposures and Risk Mitigation

10.1 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; and
    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.

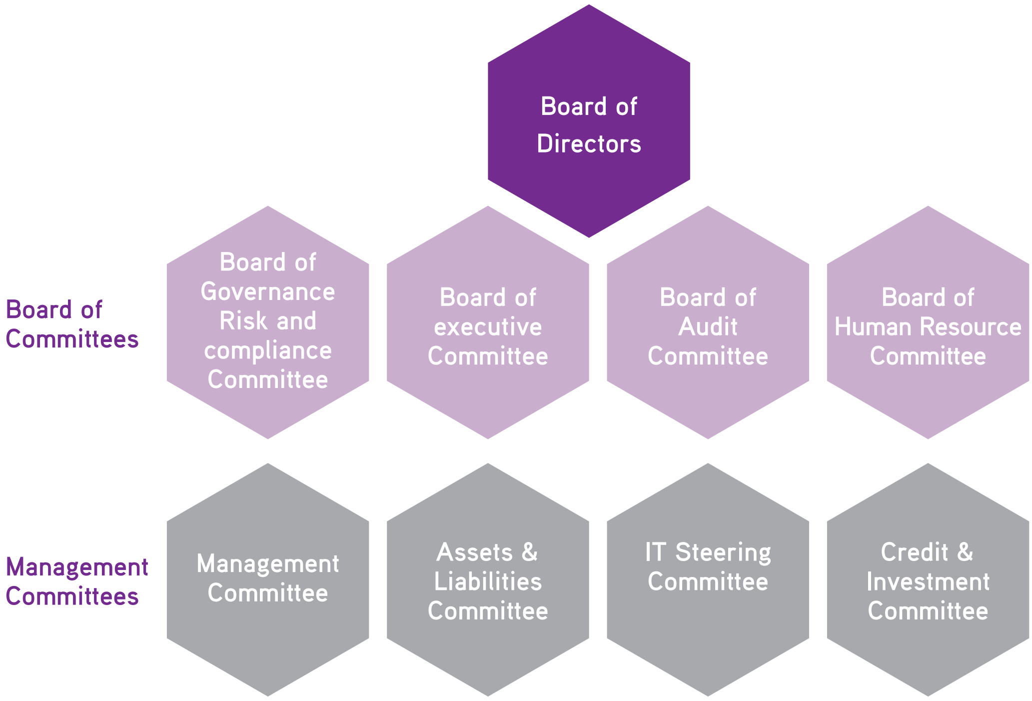
The four risk management decision phases are:

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 summarizes 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.

10.2 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 (gross) by type of contract	2018		2017	
	RO	%	RO	%
Sales Receivable and Other Receivables	210,971,675	28.90%	189,353,137	31.92%
Ijarah Muntahia Bittamleek	318,072,564	43.57%	285,630,870	48.15%
Musharaka financing	60,936,118	8.35%	25,986,532	4.39%
Wakala Bil Istethmar	140,102,592	19.19%	92,233,136	15.55%
Total Gross Financing	730,082,949	100.00%	593,203,675	100.00%

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

	2018 Gross Financing		2017 Gross Financing	
	RO	%	RO	%
Personal	362,849,412	49.70%	316,307,269	53.32%
Small Medium Enterprises	11,400,601	1.56%	7,395,742	1.25%
Corporate	355,832,936	48.74%	269,500,664	45.43%
Government	-	0.00%	-	0%
Total	730,082,949	100%	593,203,675	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 73,263,381 (Dec 2017: OMR 53,881,017) as of reporting date.

11. 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 based on the internal rating system/mechanism.
- A financing that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing exposure that is overdue for 90 days or more is considered impaired.
- The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

- The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).
- The 12 month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
- Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.
- The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.
- For all Past Due receivables and Impaired Financial assets, Expected Credit Loss (ECL) impairment is created and for Performing Financing Assets, ECL is created on forward looking approach in accordance with IFRS 9 standards. To assess requirements of ECL, financial assets are divided into three staging criteria i.e. Stage 1, Stage 2 and Stage 3. Where Stage 1 is for 'performing', Stage 2 is for 'under-performing' where credit risk has increased significantly since inception; and Stage 3 is for 'non-performing'.

11.1 Quantitative Disclosure

(a) Total Gross Credit and Average Gross Credit

	2018		2017	
	Total Gross Credit	**Average Gross Credit**	Total Gross Credit	Average Gross Credit
	RO	**RO**	RO	RO
Sales Receivables and Other Receivables	**210,971,674**	**200,162,406**	189,353,137	154,242,562
Ijarah Muntahia Bittamleek	**318,072,564**	**301,851,717**	285,630,870	261,269,530
Musharaka financing	**60,936,118**	**43,461,325**	25,986,532	13,397,025
Wakala Bil Istethmar	**140,102,593**	**116,167,865**	92,233,136	77,859,405
Investments in Sukuk & securities	**50,261,234**	**48,991,186**	47,721,137	38,540,324
Interbank Wakala Placements	**6,404,921**	**13,133,483**	19,862,045	33,089,762
Total	**786,749,104**	**723,767,981**	660,786,857	578,398,606

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

	2018		2017	
External Ratings	**Investment in Sukuk and Securities**	**Interbank Wakala Placements and Due from Banks**	Investment in Sukuk and Securities	Interbank Wakala Placements and Due from Banks
	RO	**RO**	RO	RO
AAA	**15,403,126**	**-**	-	
AA+,AA-AA	**-**	**10,325**	3,849,846	234,581
A+, A, A-	**-**	**5,542,644**	4,908,766	2,052,869
BBB+, BBB, BBB-	**22,308,078**	**707,351**	26,296,833	15,879,281
BB+, BB, BB-	**2,122,775**	**118,373**	2,597,294	1,693,815
B+, B, B-	**2,708,629**	**-**	620,222	-
Unrated	**7,718,626**	**26,228**	9,448,176	1,499
Total	**50,261,234**	**6,404,921**	47,721,137	19,862,045

(b) Exposure in terms of geographical area

	Assets			Liabilities		
	Gross due from banks and Interbank Wakala investment	Gross financing	Gross investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2018	RO	RO	RO	RO	RO	RO
Sultanate of Oman	228,668	728,446,699	28,330,962	711,619,106	-	181,687,242
Other GCC countries	1,322,178	1,636,250	5,820,517	-	-	2,997,326
Europe and North America	4,831,179	-	706,629	-	-	263,450
Africa and Asia	22,896	-	15,403,126	-	115,869	861,260
Total	6,404,921	730,082,949	50,261,234	711,619,106	115,869	185,809,278

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2017	RO	RO	RO	RO	RO	RO
Sultanate of Oman	15,610,219	591,310,758	30,347,758	525,851,542	11,550,000	214,478,975
Other GCC countries	2,707,747	1,892,917	11,759,755	-	7,700,000	2,772,990
Europe and North America	1,471,414	-	-	-	-	4,270,267
Africa and Asia	72,665	-	5,613,624	-	88,529	3,922,582
Total	19,862,045	593,203,675	47,721,137	525,851,542	19,338,529	225,444,814

(c) Customer concentrations

	Assets			Liabilities		
2018	Due from banks and Interbank Wakala investment	Gross Financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
Personal	-	362,849,412	-	302,198,023	-	90,593
Corporate	6,404,921	367,233,537	10,427,255	91,789,759	115,869	183,482,547
Government	-	-	39,833,979	317,631,324	-	2,236,138
Total	6,404,921	730,082,949	50,261,234	711,619,106	115,869	185,809,278

2017	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
Personal	-	316,307,269	-	201,467,257	-	35,712
Corporate	19,862,045	276,896,406	22,680,255	40,855,418	19,338,529	206,409,102
Government	-	-	25,040,882	283,528,867	-	19,000,000
Total	19,862,045	593,203,675	47,721,137	525,851,542	19,338,529	225,444,814

(d) **Industry concentrations**

	Assets: Due from banks and interbank Wakala	**Assets: Gross financing**	**Assets: Investments in Sukuk and securities**	**Liabilities: Current, unrestricted IAH and customer Wakala**	**Liabilities: Interbank Wakala**	**Liabilities: Contingent liabilities and commitments**
31 December 2018	**RO**	**RO**	**RO**	**RO**	**RO**	**RO**
Personal	**-**	**362,849,412**	**-**	**302,198,023**	**-**	**-**
Construction	**-**	**129,127,832**	**-**	**7,751,332**	**-**	**63,861,729**
Manufacturing	**-**	**74,022,907**	**-**	**-**	**-**	**21,836,368**
Financial services	**6,404,921**	**-**	**706,629**	**-**	**115,869**	**-**
Government	**-**	**-**	**39,833,979**	**317,631,324**	**-**	**2,236,138**
Other services	**-**	**128,981,237**	**-**	**4,960,499**	**-**	**30,307,659**
Others	**-**	**35,101,561**	**9,720,626**	**79,077,928**	**-**	**67,567,384**
	6,404,921	**730,082,949**	**50,261,234**	**711,619,106**	**115,869**	**185,809,278**

	Assets: Due from banks and interbank Wakala	Assets: Gross financing	Assets: Investments in Sukuk and securities	Liabilities: Current, unrestricted IAH and customer Wakala	Liabilities: Interbank Wakala	Liabilities: Contingent liabilities and commitments
31 December 2017	RO	RO	RO	RO	RO	RO
Personal	-	316,307,269	-	201,467,257	-	35,712
Construction	-	55,268,843	-	2,532,312	-	65,606,155
Manufacturing	-	52,141,605	-	3,361,125	-	33,847,672
Financial services	19,862,045	-	704,858	-	19,338,529	-
Government	-	-	25,040,882	283,528,867	-	19,000,000
Other services	-	37,172,759	-	1,424,800	-	12,826,432
Others	-	132,313,199	21,975,397	33,537,181	-	94,128,843
	19,862,045	593,203,675	47,721,137	525,851,542	19,338,529	225,444,814

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

2018	Due from banks and interbank Wakala RO	Gross Sales receivables and other receivables RO	Gross Ijarah Muntahia Bittamleek RO	Gross Musharaka financing	Gross Wakala Bil Istethmar RO	Investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
Construction	-	11,556,762	43,078,564	876,980	73,615,527	-	129,127,833	63,861,729
Electricity, gas and water	-	20,304,332	1,414,639	551,673	25,823,723	-	48,094,367	10,973,452
Financial institutions	6,404,921	-	-	-	-	706,629	7,111,550	-
Services	-	15,051,010	11,130,396	35,076,026	17,993,188	-	79,250,620	19,334,207
Personal financing	-	112,661,022	250,118,812	69,578	-	-	362,849,412	-
Government	-	-	-	-	-	39,833,979	39,833,979	2,236,138
Non-resident financing	-	-	1,636,250	-	-	-	1,636,250	-
Others	-	51,398,549	10,693,903	24,361,860	22,670,155	9,720,626	118,845,093	89,403,752
Total	6,404,921	210,971,675	318,072,564	60,936,117	140,102,593	50,261,234	786,749,104	185,809,278

2017	Due from banks and interbank Wakala RO	Gross Sales receivables and other receivables RO	Gross Ijarah Muntahia Bittamleek RO	Gross Musharaka financing	Gross Wakala Bil Istethmar RO	Investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
Construction	-	8,424,567	10,634,998	1,033,914	35,175,364	-	55,268,843	65,606,155
Electricity, gas and water	-	24,047,289	1,206,534	-	27,558,249	-	52,812,072	34,430,842
Financial institutions	19,862,045	-	-	-	-	704,858	20,566,903	-
Services	-	13,403,343	2,249,690	17,645,290	3,874,436	-	37,172,759	12,826,432
Personal financing	-	101,917,352	214,389,917	-	-	-	316,307,269	-
Government	-	-	-	-	-	25,040,882	25,040,882	19,000,000
Non-resident financing	-	-	1,892,917	-	-	-	1,892,917	-
Others	-	41,560,586	55,256,814	7,307,328	25,625,087	21,975,397	151,725,212	93,581,385
Total	19,862,045	189,353,137	285,630,870	25,986,532	92,233,136	47,721,137	660,786,857	225,444,814

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

2018	Gross due from banks and interbank Wakala RO	Gross sales receivables and other receivables RO	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO	Gross Musharaka financing RO	Gross Wakala Bil Istethmar RO	Gross investment in Sukuk & securities RO	Total RO	Off balance sheet exposures RO
Upto 1 month	6,404,921	7,796,226	2,135,123	308,312	17,070,912	58,779	33,774,273	8,890,935
1 to 3 months	-	15,030,935	7,056,488	2,518,071	18,287,006	15,403,126	58,295,626	28,710,075
3 to 6 months	-	19,063,323	6,069,297	1,653,474	28,026,452	-	54,812,546	44,812,813
6 to 9 months	-	14,461,163	6,379,744	2,365,778	22,946,684	706,629	46,859,998	3,535,452
9 to 12 months	-	13,473,806	6,473,926	1,919,804	17,122,255	6,556,270	45,546,061	87,535,566
1 to 3 years	-	73,756,263	51,066,115	17,403,814	17,758,887	1,718,525	161,703,604	7,401,082
3 to 5 years	-	39,422,044	48,335,127	15,280,387	16,110,604	-	119,148,162	2,355,469
Over 5 years	-	27,967,915	190,556,744	19,486,477	2,779,793	25,817,905	266,608,834	2,567,886
	6,404,921	210,971,675	318,072,564	60,936,117	140,102,593	50,261,234	786,749,104	185,809,278

	Due from banks and interbank Wakala	Gross sales receivables and other receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
2017	RO	RO	RO	RO	RO	RO	RO	RO
Upto 1 month	19,862,045	5,449,979	1,766,917	39,691	16,499,319	10,431,751	54,049,703	49,521,661
1 to 3 months	-	12,383,038	6,186,156	707,821	15,187,640	3,850,154	38,314,809	22,235,199
3 to 6 months	-	14,284,252	5,129,593	231,021	11,962,594	-	31,607,460	12,308,442
6 to 9 months	-	16,388,337	5,432,637	641,537	13,183,375	-	35,645,886	15,981,073
9 to 12 months	-	13,273,026	5,759,645	287,827	9,363,108	-	28,683,606	73,707,913
1 to 3 years	-	56,185,513	50,824,625	4,344,826	9,829,222	1,325,080	122,509,266	32,397,295
3 to 5 years	-	40,377,760	46,360,271	4,136,122	13,917,003	8,469,318	113,260,474	8,313,201
Over 5 years	-	31,011,232	164,171,026	15,597,687	2,290,875	23,644,834	236,715,653	10,980,030
	19,862,045	189,353,137	285,630,870	25,986,532	92,233,136	47,721,137	660,786,857	225,444,814

(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:**

A)	**Performing financing**	**Non-performing financing**	**Impairment losses under stage III held**	**Impairment losses under stage I and II Held**
Dec-31, 2018	RO	RO	RO	RO
Personal financing	**362,674,359**	**155,053**	**128,973**	**883,186**
Non-resident corporate financing	**1,636,250**	**-**	**-**	**7,549**
Resident corporate financing	**365,471,674**	**145,612**	**68,896**	**5,621,053**
	729,782,283	**300,665**	**197,869**	**6,511,788**

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
Dec-31, 2017	RO	RO	RO	RO
Personal financing	316,307,269	159,027	73,632	4,510,067
Non-resident corporate financing	1,892,917	-	-	18,929
Resident corporate financing	275,003,489	188,362	52,965	2,613,923
	593,203,675	347,389	126,597	7,142,919

B)	**Performing financing**	**Non-performing financing**	**Impairment losses under stage III held**	**Impairment losses under stage I and II Held**
	RO	RO	RO	RO
31-Dec-18				
Construction	**129,127,832**	**-**	**-**	**1,208,695**
Electricity, gas and water	**48,094,367**	**-**	**-**	**1,538,465**
Financial institutions	**-**			**-**
Services	**79,250,620**	**-**	**-**	**189,207**
Personal financing	**362,674,359**	**155,053**	**128,973**	**883,186**
Non-resident financing	**1,636,250**	**-**	**-**	**7,549**
Others	**108,998,855**	**145,612**	**68,896**	**2,684,686**
	729,782,283	**300,665**	**197,869**	**6,511,788**

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
31-Dec-17				
Construction	55,268,843	-	-	552,688
Electricity, gas and water	52,812,072	-	-	528,121
Financial institutions	-			-
Services	37,172,759	-	-	371,728
Personal financing	316,307,269	158,975	52,965	4,373,955
Non-resident financing	1,892,917	-	-	18,929
Others	129,749,815	188,414	73,632	1,297,498
	593,203,675	347,389	126,597	7,142,919

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

	Performing financing	**Non-performing financing**	**Impairment losses under stage III held**	**Impairment losses under stage I and II Held**
Dec-31, 2018	RO	RO	RO	RO
Sultanate of Oman	728,146,033	300,665	197,869	6,504,242
Other countries	1,636,250	-	-	7,549
Total	729,782,283	300,665	197,869	6,511,791

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
Dec-31, 2017	RO	RO		RO
Sultanate of Oman	591,310,758	347,389	126,597	7,123,990
Other countries	1,892,917	-	-	18,929
Total	593,203,675	347,389	126,597	7,142,919

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

	Performing financing	**Non-performing financing**	**Impairment losses under stage III held**	**Impairment losses under stage I and II Held**
Dec-31, 2018	RO	RO	RO	RO
Personal financing	362,674,359	155,053	128,973	883,186
Non-resident corporate financing	1,636,250	-	-	7,549
Resident corporate financing	365,471,674	145,612	68,896	5,621,056
	729,782,283	300,665	197,869	6,511,791

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
Dec-31, 2017	RO	RO	RO	RO
Personal financing	316,307,269	159,027	73,632	4,510,067
Non-resident corporate financing	1,892,917	-	-	18,929
Resident corporate financing	275,003,489	188,362	52,965	2,613,923
	593,203,675	347,389	126,597	7,142,919

(k) **Change in loss provisions during the financial year**

	2018	2017
	RO	RO
Balance at 1 January	6,604,516	4,678,459
Transition impact IFRS 9	(150,230)	-
Impairment losses as at 1 January 2018	6,454,286	-
Impairment losses / general provision made during the year on sales and other receivables	190,897	644,963
Impairment losses / general provision made during the year on Ijarah Muntahia Bittamleek	129,743	666,884
Impairment losses / general provision made during the year on Wakala Bil Istethmar	1,473,608	287,475
Impairment losses / general provision made during the year on Musharaka financing	749,571	251,790
Impairment losses made during the year on investments	(49,762)	-
Impairment losses made during the year on due to banks	(29,308)	-
Impairment losses made during the year on non-funded facilities	(467,780)	-
Specific provision made during the year on sales and other receivables	-	74,945
Total impairment losses / general and specific provision expense	1,996,969	1,926,057
Balance at Dec-31,	8,451,255	6,604,516

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

During the year, OMR 49,308 (Dec 2017: OMR 85,427) penalty is imposed to customer for delayed payment and OMR 49,308 (2017: OMR 85,427) has been transferred to Family Care Association and Oman Charitable Association as per the policy.

12. 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.

12.1 Qualitative Disclosure

- The Bank only considers Shari'a 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 as per the CBO guidelines takes the value of collateral after applying appropriate haircut before assigning provisions. In cases, whenever the bank acquires/disposes assets as a last resort on fair market value, the decision is 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.
- Due to the nature of Islamic banking in which underlying asset must be tangible and acceptable for purpose of transaction structure which has resulted in increased concentration on specific asset/sector type i.e. Real Estate. However, the Bank has adopted a sound and prudent portfolio management and control practices that involve the minimization of concentration risk by developing and implementing policies and procedures to ensure the diversification of the portfolio.

12.2 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

	2018	2017
	RO	RO
Real Estate	288,000,111	302,132,132
Movable Assets	58,802,495	57,959,187
Total	346,802,606	360,091,320

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 Sukuk) therefore no haircut is applied for the purpose of calculation of Risk Weighted Assets or assessment of specific provision/stage 3 expected credit loss requirements.

(b) Disclosure of the carrying amount of assets owned and leased under Ijara Muntahia Bittamleek

	2018	2017
	RO	RO
Ijarah Muntahia Bittamleek	318,072,564	285,630,870

13. 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.

13.1 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 Shari'a compliant financing and investment activities.
- The bank has already implemented Basel III standards for liquidity that includes Liquidity Coverage Ratio and Net Stable Funding Ratio. These ratios are used as an indicator to show the Bank's liquidity position to honor its short-term and long-term commitments.
- "Basel III" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector.
- These measures aim to:
  - o improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
  - o improve risk management and governance
  - o strengthen banks' transparency and disclosures

13.2 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

	2018	2017
	RO	RO
Short-term Assets	323,546,671	167,454,484
Short-term Liabilities	329,782,838	215,160,115
Short-term Assets to Liabilities	98.11%	77.83%

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

	2018	2017
	RO	RO
Liquid Assets	99,365,120	62,676,016
Short-term Liabilities	329,782,838	290,811,919
Total Liabilities	734,978,738	566,553,594
Liquid Asset to Short-term Liabilities	30.13%	32.28%
Liquid Asset to Total Liabilities	13.52%	11.11%

(c) Maturity profile of assets and liabilities

	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
Dec-31, 2018	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	92,465,570	-	-	-	500,001	92,965,571
Inter-bank Wakala and Due from banks	6,399,549	-	-	-		6,399,549
Financing to customers - net	23,140,226	62,287,336	60,103,140	211,424,184	203,590,474	560,545,360
Financial assets at fair value through equity	10,431,751	3,850,154	-	2,794,398	23,644,834	40,721,137
Financial assets at amortized cost	-	-	1,993,171	-	-	1,993,171
Investment in real estate	-	-	-	14,175,000	-	14,175,000
Intangible asset					2,262,273	2,262,273
Property and equipment					2,028,586	2,028,586
Other assets	104,397	480,457	319,959	3,465,931	3,462,330	7,833,074
Total assets	125,525,588	109,567,182	88,453,901	282,797,592	265,823,277	872,167,540
Interbank Wakala	115,869	-	-	-	-	115,869
Customer accounts, Wakala and unrestricted accountholders	51,800,770	119,560,191	150,075,457	258,580,144	130,824,427	710,840,989
Other liabilities	-	3,948,130	4,282,421	10,433,132	4,923,981	23,587,664
Investment risk and profit equalization reserve	-	-	-	-	434,216	434,216
Owners' equity	-	-	-	-	137,188,802	137,188,802
Total liabilities, equity of unrestricted investment accountholders and owners' equity	51,916,639	123,508,321	154,357,878	269,013,276	273,371,426	872,167,540
Net gap	73,608,949	(13,941,139)	(65,903,977)	13,784,316	(7,548,149)	-
Cumulative net gap	73,609,949	59,667,810	(6,236,167)	7,548,149	-	

	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
Dec-31, 2017	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	42,313,967	-	-	-	500,001	42,813,968
Inter-bank Wakala and Due from banks	19,862,045	-	-	-	-	19,862,045
Financing to customers - net	23,140,226	62,287,336	60,103,140	211,424,184	203,590,474	560,545,360
Financial assets at fair value through equity	10,431,751	3,850,154	-	2,794,398	23,644,834	40,721,137
Financial assets at amortized cost	-	-	-	7,000,000	-	7,000,000
Investment in real estate	-	-	14,175,000	-	-	14,175,000
Intangible asset	-	-	-	-	2,203,452	2,203,452
Property and equipment	-	-	-	-	2,428,106	2,428,106
Other assets	86,931	488,881	202,026	3,820,733	2,290,332	6,888,903
Total assets	95,834,920	66,626,371	74,480,166	225,039,315	234,657,199	696,637,971
Interbank Wakala	2,013,529	17,325,000	-	-	-	19,338,529
Customer accounts, Wakala and unrestricted accountholders	23,586,681	59,618,832	128,956,122	216,822,354	96,885,293	525,869,282
Other liabilities	5,544,238	3,925,700	10,683,982	246,155	-	20,400,075
Investment risk and profit equalization reserve	-	-	-	-	280,708	280,708
Owners' equity	-	-	-	-	130,749,377	130,749,377
Total liabilities, equity of unrestricted investment accountholders and owners' equity	31,144,448	80,869,532	139,640,104	217,068,508	227,915,378	696,637,971
Net gap	64,690,472	(14,243,161)	(65,159,938)	7,970,806	6,741,821	-
Cumulative net gap	64,690,472	50,447,311	(14,712,627)	(6,741,821)	-	-

14. Market Risk

Market risk is the risk of loss due to unfavorable movements in market factors such as profit rates, exchange rates, and commodity 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.

14.1 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.

The principal categories of market risk faced by the Bank are set out below:

Profit Rate Risk

Profit rate risk is the risk that the Bank will incur a financial loss as a result of mismatch in the profit rate on the assets and balances from fund providers. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders. Therefore, the Bank is not subject to any significant profit rate risk.

However, the profit sharing arrangements will result in displaced commercial risk when the Bank's results do not allow the Bank to distribute profits in line with the market rates. In respect of monitoring the impact of profit rate changes on the earnings and economic value of the Bank, the Bank has developed suitable risk management tool that identify gaps based on the repricing of the assets and liabilities. The result of this sensitivity analysis is presented to Assets and Liability Committee to that necessary decision, if required can be taken for protect the interest of the Bank.

Foreign Exchange Risk

Forex risk is the risk that a bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position in an individual foreign currency.

The Bank has exposure in foreign currency. However, significant portion of the foreign currency exposure is in USD and GCC pegged currencies. In addition to this, the Bank has internal limits and mechanism for controlling foreign currency risk for unpegged currencies.

Commodity Price Risk

Commodity price risk is defined as the risk of losses in on- or off-balance sheet position arising from movements in market prices i.e. fluctuations in value in tradable or marketable commodities. The risk related to the current and future volatility of market values of specific assets (for example, the commodity price of Salam asset or the market value of Murabaha assets purchased to be delivered over a specific period).

The Bank however is not exposed to commodity market as the bank whenever enter into any transaction or specific agreement, the commodity price risk is either hedged or the transaction is performed on spot basis so there is not fluctuation of market price from the moment bank takes an asset in possession and sells an asset to the buyer/customer.

Price Risk

Price Risk or Equity Investment Risk is risk to earnings or capital that results from adverse changes in the value of equity related portfolios of the Bank.

The Bank has investments in Sukuks and Mutual Funds. All the investments are marked-to-market on regular basis. All the investment is made after a careful due diligence after taking necessary approvals including from Shari'a to ensure that investments are made as per Shari'a standards. The day-to-day monitoring and management of investments is done by Treasury, Risk Management and Asset Liability Committee of the Bank. All strategic investments are regularly reviewed by Risk Management and Credit and Investment Committee of the Bank.

14.2 **Quantitative Disclosure**

(a) Breakdown of Market RWA	2018	2017
	RO	RO
Equity Position	-	-
Foreign Exchange Risk	11,425,050	22,391,617
Commodity Risk	-	-
Total	11,425,050	22,391,617

(b) **Foreign Exchange Net Open Position to Capital**

	2018	2017
Foreign Exchange Net Open Position to Capital	8.33%	16.84%

As of reporting date, the bank does not have any trading book instruments. Most of the exposure is in USD and OMR is pegged with USD therefore the sensitivity analyses are immaterial to be reported.

(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 does not have any trading book instruments. Most of the exposure is in USD and OMR is pegged with USD therefore the sensitivity analyses are immaterial to be reported.

15. **Operational risk**

15.1 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. It also includes the risk that arises from the bank's failure to comply with the Sharia rules and principles. Being an Islamic Bank, sharia non-compliance risk is managed by an independent function that ensures bank's adherence to the Sharia standards and rules.

- 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 of Directors. 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. The Bank also conducted testing of critical functions in order to continue critical transaction in case of any unforeseen events.

15.2 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.

		2018	2017
		RO '000	RO '000
Net income from financing activities		36,359	26,667
Add: Net income from investment activities		3,403	3,092
Add: Fee income		4,474	3,502
Less: Investment Accountholders share of income		17,387	11,285
Add : Other Income		583	416
Total Revenues		27,433	22,392
		-	-
Less: Exceptional and extraordinary income		-	-
Gross Income		27,433	22,392
Gross Income times of Alpha (15%)		4,115	2,607
Operational Risk Weighted Assets	12.5x	51,437	32,586
Operational Risk Weighted Assets (Average of last 3 Years)		42,002	23,006

(b) Indicators for Operational risk exposures

	2018	2017
	RO '000	RO '000
• Gross Income taken in RWA calculation	27,433	22,392

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

16. 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 financing and deposits portfolio.

16.1 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 Dec-31, 2018.

16.2 Quantitative

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

	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
Dec-31, 2018	RO	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	92,965,571	92,965,571
Inter-bank Wakala and Due from banks	-	-	-	-	-	6,399,549	6,399,549
Financing to customers – net	207,680,168	101,349,278	90,038,414	233,253,880	64,147,873	-	696,469,613
Financial assets at fair value through equity	-	15,403,126	470,702	1,718,525	25,942,571	4,505,779	48,040,703
Financial assets at amortized cost	-	-	1,993,171	-	-	-	1,993,171
Investment in real estate	-	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	-	2,262,273	2,262,273
Property and equipment	-	-	-	-	-	2,028,586	2,028,586
Other assets	-	-	-	-	-	7,833,074	7,833,074
Total assets	207,680,168	116,752,404	92,502,287	234,972,405	90,090,444	130,169,832	872,167,540
Interbank Wakala	-	-	-	-	-	115,869	115,869
Customer accounts, Wakala and unrestricted accountholders	35,666,508	92,093,721	101,006,990	294,054,067	109,883,366	78,136,337	710,840,989
Other liabilities	-	-	-	-	-	23,587,664	23,587,664
Investment risk and profit equalization reserve	-	-	-	-	434,216	-	434,216
Shareholders' equity	-	-	-	-	-	137,188,802	137,188,802
Total liabilities and shareholders' equity	-	-	-	-	-	-	-
On-balance sheet gap	35,666,508	92,093,721	101,006,990	294,054,067	110,317,582	239,028,672	872,167,540
Cumulative profit sensitivity gap	172,013,660	196,672,343	188,167,640	129,085,978	108,858,840	-	-

	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
Dec-31, 2017	RO	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	42,813,968	42,813,968
Inter-bank Wakala and Due from banks	16,397,550	-	-	-	-	3,464,495	19,862,045
Financing to customers - net	136,415,232	81,159,071	80,151,364	199,458,493	63,361,200	-	560,545,360
Financial assets at fair value through equity	4,908,458	3,850,154	-	9,794,398	16,644,858	5,523,269	40,721,137
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	-	2,203,452	2,203,452
Property and equipment	-	-	-	-	-	2,428,106	2,428,106
Other assets	29,181	160,017	89,337	1,237,562	2,044,086	3,328,720	6,888,903
Total assets	157,750,421	85,169,242	80,240,701	217,490,453	82,050,144	73,937,010	696,637,971
Interbank Wakala	1,925,000	17,325,000	-	-	-	88,529	19,338,529
Customer accounts, Wakala and unrestricted accountholders	9,438,427	35,922,972	45,011,722	288,601,015	78,584,928	68,310,218	525,869,283
Other liabilities	-	-	-	-	-	20,400,075	20,400,075
Investment risk and profit equalization reserve	-	-	-	-	280,708	-	280,708
Shareholders' equity	-	-	-	-	-	130,749,377	130,749,377
Total liabilities and shareholders' equity	11,363,427	53,247,972	45,011,722	288,601,015	78,865,636	219,548,199	696,637,971
On-balance sheet gap	146,386,994	31,921,270	35,228,979	(71,110,562)	3,184,508	(145,611,189)	-
Cumulative profit sensitivity gap	146,386,994	178,308,264	213,537,243	142,426,681	145,611,189	-	-

- 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

	2018	2017
	RO	RO
+200 bps	3,676,701	3,281,878
+100 bps	1,838,351	1,640,939
-200 bps	(3,676,701)	(3,281,878)
-100 bps	(1,838,351)	(1,640,939)

17. 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.

17.1 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:

	2018	2017
Items	RO	RO
Total distributable profits	**37,968,142**	27,956,017
Bank Share As " Mudarib and Rab ul Maal"	**20,581,619**	16,671,013
Depositors Share of profits	**15,217,157**	8,823,698
Bank Share As " Mudarib"	**7,538,351**	4,626,678
Net profit to be distributed to the depositors before IRR & PER	**7,678,806**	4,197,020
Investment Risk Reserve "IRR"	**(153,508)**	(120,584)
Profit Equalization Reserve "PER"	**-**	779,239
Net profit to be distributed to the depositors after IRR & PER	**7,525,298**	4,855,675

- During the period the Bank did not utilize from PER (FY2017: 779,239) 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.

17.2 Quantitative Disclosures

Historical Rate of Return of unrestricted Investment Accountholder:

	2018	2017	2016	2015	2014
	RO	RO	RO	RO	RO
Profit Earned	**37,968,142**	27,956,017	17,981,771	10,063,445	5,537,082
Profit Distributed	**7,678,806**	4,197,020	1,195,473	896,195	243,609
Funds Invested	**322,850,958**	227,777,182	157,984,717	73,597,787	42,280,807
Return as % of Funds Invested	**2.38%**	1.84%	0.76%	1.22%	0.58%

18. Contract-Specific Risk

In each type of Islamic Financing asset is exposed to a varying mix of credit and market risk. This mix can also vary according to the stage of the contract. However, the product structure does not change the nature of risk at the stage of contract. Further policy restricts undue exposure of any risk at any given time and all the contracts are in line with Shari'a and regulatory guidelines. Accordingly, capital is required to be allocated for such risk exposures in line with IBRF.

18.1 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.

18.2 **Quantitative Disclosure**

Disclosure of Capital Requirements according to different risk categories for each Shari'a compliant financing contract

	2018			2017		
	RO	RO	RO	RO	RO	RO
	Credit risk	Market risk	Risk Weighted Assets	Credit risk	Market risk	Risk Weighted Assets
Ijarah Muntahia Bittamleek	316,397,423	-	153,988,331	26,200,862	-	188,835,041
Sales Receivable and Other Receivables	182,268,610	-	166,459,516	22,286,087	-	160,620,449
Wakala Bil Istethmar	137,923,549	-	275,847,098	25,594,695	-	184,466,272
Musharaka Financing	59,880,031		59,880,031	9,735,204		70,163,636
Letter of Guarantees	73,263,381	-	64,129,109	3,737,996	-	26,940,509
Letter of Credit	17,124,262	-	3,593,613	559,879	-	4,035,167
Acceptance and Bills for Collection (Wakala)	11,356,512	-	11,356,513	1,016,834	-	7,328,535
Total	798,213,768		735,254,211	89,131,558		642,389,609

19. General Disclosure from Corporate Governance

19.1 Qualitative Disclosure

- An important objective of these disclosures is to ensure transparency regarding Shari'a 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:

Dec-31, 2018	Principal shareholders	Shari'a Board	Senior management	Total
	RO	RO	RO	RO
Sales receivables & other receivables	91,047	12,101	194,995	298,143
Ijarah Muntahia Bittamleek	469,009	78,052	945,824	1,492,885
Wakala Bil Istethmar	9,000,000	-	-	9,000,000
Customers' accounts	856,030	665	20,826	877,521
Unrestricted investment accountholders	5,764,683	34,997	8,097	5,807,777

Dec-31, 2017	Principal shareholders	Shari'a Board	Senior management	Total
	RO	RO	RO	RO
Sales receivables & other receivables	311,095	15,731	90,085	416,911
Ijarah Muntahia Bittamleek	1,598,966	80,977	552,635	2,232,578
Wakala Bil Istethmar	1,200,000	-	-	1,200,000
Customers' accounts	1,110,079	167	401,042	1,511,288
Unrestricted investment accountholders	9,303,444	10	237	9,303,691

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

Dec-31, 2018	Principal shareholders	Sharia Board	Senior management	Total
	RO	**RO**	**RO**	**RO**
Profit account	**296,284**	**5,117**	**27,647**	**329,048**
Commission income	**112**	**-**	**-**	**112**
Operating expenses				
Staff expense	**-**	**-**	**1,513,520**	**1,513,520**
Other expenses	**60,811**	**54,461**	**-**	**115,272**

Dec-31, 2017	Principal shareholders	Sharia Board	Senior management	Total
	RO	RO	RO	RO
Profit account	66,543	4,895	18,941	90,379
Commission income	160	-	6	166
Operating expenses				
Staff expense	-	-	1,111,957	1,111,957
Other expenses	64,050	59,623	-	123,673

- During the year the Bank organized general awareness program through road shows on Islamic Banking and banks products and services in all major cities. This initiative brings the professional staff closer to the community and enables visitors to gain in-depth information on all of its products and services. Information related to Islamic Banking products that currently bank is offering is also available on its website.
- 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 in dedicated system acquired for customer complaints handling 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, Senior Management and Board of Directors. In order to provide our customers with easy access to financial services, fair terms and pricing and at the same time to ensure that we are remain committed to being at the heart of customers we serve, an independent customer feedback collection is being carried. This will help us to follow our passion to go above and beyond the expectation of our customers in providing enhanced value in the diversity of our products and services.

20. Shari'a Governance Disclosures

20.1 **Qualitative Disclosure**

- Sharia Compliance Department (SCD) is an integral element and backbone of the Sharia Governance structure established in Bank Nizwa and approved by the Bank's Sharia Supervisory Board (SSB). An effective Sharia policy enhances the diligent supervision of the Board of Directors (BOD), the SSB and the Management of the Bank to ensure that the operations and end-to-end business activities of the Bank remain consistent with Islamic Sharia principles and its requirements.
- To ensure Sharia compliance in all aspects of Islamic banking activities of the Bank, the Central Bank of Oman (CBO) have mandated several provisions in relation to the establishment of the Sharia Supervisory Board and an internal SCD in an Islamic Bank as per the Islamic Banking Regulatory Framework (IBRF) issued by the CBO which in tandem with recommended Sharia Governance guidelines as issued by AAOIFI and IFSB. The SSB is an independent Sharia Supervisory Body which plays a vital role in providing Sharia views and rulings (Fatwa) pertaining to Islamic finance transactions including investments, products and services as well as all activities which the Bank undertakes. The SSB also acts as a monitoring body which performs a supervisory role through SCD to maintain Sharia compliance in the operations and business activities of the Bank.
- At the institutional level, SCD acts as an intermediary between the SSB and the Management team of the Bank. The SCD together with the SSB has the statutory role to provide Sharia resolutions and guidelines to the Management who shall ensure that all activities of the Bank are in compliance with the Sharia rules and principles, in accordance with the guidelines laid down by IBRF as well as the Fatwa / Sharia Ruling as issued by the SSB. 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.
- As a function, SCD reports directly to SSB, and reports in parallel to CEO of the Bank with respect to administrative issues. SSB through SCD provides copies of its Sharia decisions and resolutions to BOD and CEO because the 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 Sharia 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 Sharia compliance of transactions, SCD consistently conducts Sharia review before execution of transactions (ex-ante) and Sharia audit after execution (ex-post). Sharia review and audit encompasses each type of transaction across business lines, the relevant documentation and execution procedures. The overall Sharia Compliance activities are reported in the monthly report which is sent to CEO and the same report is provided to the SSB on its quarterly meeting.
- 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 (SOP) prepared by the Operations Department and approved by the concerned department Heads including Sharia. Sharia audit uses check lists as per SSB Sharia guidelines to meet Sharia requirement and ensure that the SOPs are adhered to during execution.
- 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 approved 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 as 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. Any Sharia resolutions or Fatwas issued by SSB are communicated directly to Management of the bank. Such Sharia resolutions are mandatory for application and it is the responsibility of management at the bank to assure that various business departments at the bank abide by these Sharia resolutions which are mandatory to be applied.
- 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 and International Trade transactions

including Treasury are audited on sample basis at a minimum of 10%. 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.

- Sharia audit findings and observations in these transactions are directly reported to Sharia Ex-Com who give immediate instructions and Sharia ruling regarding any violations. In case the violation is confirmed, Sharia Ex-com diverts the profit of such transaction to charity account, and the same cases are reported to SSB in the quarterly SSB Sharia Audit Report.
- 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 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.
- 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 proposals 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 with assistance from the assigned team member 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.

20.2 Quantitative Disclosure

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

- Sharia Audit Unit conducts ongoing Sharia audit on all business transactions of the bank. Wholesale banking transactions are subject to 100% Sharia audit, while retail transactions are subject to Sharia audit based on sample basis at a minimum of 10% as approved by SSB in the annual Sharia Audit Plan. Sharia audit findings and observations in these transactions are directly reported to Sharia Ex-Com who gives immediate instructions and Sharia ruling regarding any violations. In case the violation is confirmed, Sharia Ex-com diverts the profit of such transaction to charity account, and the same cases are reported to SSB in the quarterly SSB Sharia Audit Report.
- There is no violation to SSB's Sharia ruling and AAOIFI Sharia standard have been found during the year. However, they were cases identified in previous years as sharia non-compliant, for which income of OMR 49,308 (2017: 67,466) has been transferred to Charity account.

Disclosure of annual Zakat 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 remuneration, in addition to SSB meeting attendance fees. SSB members who participate from outside Oman are also entitled to travel and hotel accommodation expenses.
- During the year, the Bank paid OMR 54,461 (Dec 2017: OMR 59,623) on account of remuneration to the SSB which includes accommodation, travelling expenses, meeting and annual fees.

21. Disclosures on Remuneration

- In line with the CBO guidelines on remuneration disclosures as part of Pillar III, the Bank has outlined the relevant qualitative and quantitative disclosures in this report.
- The Bank is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. The policy is aimed to attract, retain and motivate the best people in the industry as it believes that human capital is fundamental to the bank's success.
- The Bank has a Board appointed Human Resource Committee whose primary objectives are – setting the principles, parameters and governance framework for the Bank's compensation policy; and ensuring the Bank is equipped to meet standards of international best practice.

Material Risk Takers

- The Bank has identified the members as material risk takers as their activities have a significant influence on the risk profile of the Bank.
- The main factors that have been used to identify the material risk-takers in the bank are: -
  - o the level of the job position in the management hierarchy as defined by grade (arrived at by objective Job Evaluation)
  - o responsibilities of the job that expose it to risk

Remuneration policy

- The scope of the Bank's remuneration policy extends to all employees of the bank and is an integral part of Bank's Human Resource policy.
- Remuneration of employees of control functions like Risk Management, Internal Audit and Compliance is independent of the business performance they oversee and the policy is designed to attract, retain and motivate the best talent in the industry.
- The remuneration for Senior Management of these functions are directly designed and approved by the Board Human Resource Committee.

Performance awards

- Performance awards are based on the achievement of both financial and non-financial objectives. The Performance Management System is aimed at achieving the Bank's business plans and objective through continuous and focused performance of the employees. It uses Key Result Areas/ performance factors and competencies to measure and enhance the performance of employees.
- The policy and payment of reward is in line with CBO guidelines on Sound Compensation Principles and Standards with effect from January 1, 2016.
- The Bank is committed to follow fair compensation practices where reward will be based on performance. The compensation is designed to contribute to the Bank's objectives and encourages prudent risk taking and adherence to applicable laws, guidelines and regulations.

Quantitative Disclosures

- The Board Human Resource Committee held four meetings in 2018 and OMR 6,750 (2017: OMR 5,400) was paid to the members in lieu of sitting fees.
- The key management comprises of 15 members (2017: 11 members) of the management executive committee. The below table provides details of key management compensation:

	2018	2017
	RO	RO
Salaries and Benefits	1,473,257	1,327,585
End of Service Benefits	40,263	115,717
Total	1,513,520	1,443,302

22. Liquidity coverage ratio (LCR)

- The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations require banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. This standard aims to ensure that a bank has an adequate stock of unencumbered High Quality Liquid Assets (HQLA) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the bank to survive until Day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by management and supervisors, or that the bank can be resolved in an orderly way. Furthermore, it gives the central bank additional time to take appropriate measures, should they be regarded as necessary.

2018

Stock of High Quality Liquid Assets (HQLA)	Factor	Book Balance	Adjusted amount
Level 1 assets		RO	RO
Coins and bank notes	100%	92,465,570	92,465,570
Qualifying marketable securities from sovereigns, central banks, PSEs and multilateral development banks	100%	15,403,126	15,403,126
Total Level 1 assets		107,868,696	107,868,696
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	22,920,228	19,482,193
Total Level 2A		22,920,228	19,482,193
Level 2B			
Qualifying corporate debt securities, rated between A+ and BBB-	50%	2,217,254	1,108,627
Qualifying common equity shares	50%	62,189	31,095
Total Level 2B (maximum 15% of HQLA)		2,279,443	1,139,722
Total level 2 assets (Maximum 40% of HQLA)		25,199,671	20,621,915
Total Stock of high quality liquid assets		133,068,367	128,490,611
Cash outflows			
Less stable retail deposits	10%	141,024,252	14,102,425
Less stable deposits	10%	66,557,123	6,655,712
Non-financial corporates, sovereigns, central banks and PSE	40%	27,104,357	10,841,742
Currently undrawn portion of credit lines			
Other Legal entity customers, credit and liquidity facilities	100%	497,000	497,000
Other contingent funding liabilities (Letters of credit, guarantee)	5%	13,065,164	653,258
Total cash outflows		355,908,896	32,750,138
Cash inflows			
All other assets	100%	12,123,933	12,123,933
Amounts to be received from retail counterparties	50%	3,150,375	1,575,187
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	24,160,198	12,080,099
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	87,325,215	87,325,215
Operational deposits held at other financial institutions	0%	6,404,921	-
Total cash inflows		133,164,642	113,104,434
75% of outflows			24,562,603
Inflows restricted to 75% of outflows			24,562,603
Net cash outflows			8,187,534
LCR (%)			1569.344

Liquidity coverage ratio (LCR)

2017

Stock of High Quality Liquid Assets (HQLA)	Factor	Book Balance	Adjusted amount
Level 1 assets		RO	RO
Coins and bank notes	100%	5,267,318	5,267,318
Total Level 1 assets		5,267,318	5,267,318
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	28,688,230	24,384,996
Total Level 2A		28,688,230	24,384,996
Level 2B			
Qualifying corporate debt securities, rated between A+ and BBB-	50%	9,586,498	4,793,249
Qualifying common equity shares	50%	93,024	46,512
Total Level 2B (maximum 15% of HQLA)		9,679,522	4,839,761
Total level 2 assets (Maximum 40% of HQLA)		38,367,752	29,224,757
Total Stock of high quality liquid assets		43,635,070	8,778,863
Cash outflows			
Less stable retail deposits	10%	130,942,500	13,094,250
Less stable deposits	10%	62,266,423	6,226,642
Non-financial corporates, sovereigns, central banks and PSE	40%	25,665,206	10,266,082
Currently undrawn portion of credit lines			
Other Legal entity customers, credit and liquidity facilities	100%	497,000	497,000
Other contingent funding liabilities (Letters of credit, guarantee)	5%	10,287,227	514,361
Total cash outflows		261,173,714	30,598,336
Cash inflows			
All other assets	100%	11,520,461	11,520,461
Amounts to be received from retail counterparties	50%	2,763,496	1,381,748
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	20,992,409	10,496,205
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	37,046,649	37,046,649
Operational deposits held at other financial institutions	0%	3,464,495	-
Total cash inflows		75,787,510	60,445,063
75% of outflows			22,948,752
Inflows restricted to 75% of outflows			22,948,752
Net cash outflows			7,649,584
LCR (%)			114.76

23. Net Stable Funding Ratio (NSFR)

The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations require banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. The Net Stable Funding Ratio (NSFR) promotes resilience over a longer-term time horizon by requiring banks to fund their activities with more stable sources of funding on an ongoing basis. As per the CBO regulations, banks are required to have NSFR more than 100%.

2018	Associated factor	Unweighted amount	Weighted amount
Available stable funding		RO	RO
Tier 1 capital	100%	131,763,260	131,763,260
Tier 2 capital (excluding Tier 2 instruments with residual maturity of less than one year)	100%	7,142,919	7,142,919
Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	95%	47,769,873	45,381,379
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	90%	105,130,300	94,617,270
Funding with residual maturity of less than one year provided by non-financial corporate customers, Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks	50%	200,187,136	100,093,568
All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests)	0%	24,137,750	-
Total Available Stable Funding			378,998,396
Required stable funding			
Coins,banknotes and reserves with CBO	0%	98,865,119	-
All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs	50%	247,064,581	123,532,291
Unencumbered residential mortgages with a residual maturity of one year or more and woth a risk weight of less than or equal to 35% under the Standardised Approach	65%	251,960,787	163,774,512
All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	100%	10,856,908	10,856,908
Sub total (A)		608,747,395	298,163,710
Off balance sheet exposures			
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	5%	497,000	24,850
Non contractual obligations such as potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities, structured products where customers anticipate ready marketability, managed funds that are marketed with the objective of maintaining a stable value	5%	13,065,164	653,258
Sub total (B)		-	678,258
Total Required Stable Funding (A+B)		-	298,841,818
NSFR (%)		-	126.82%

2017	Associated factor	Unweighted amount	Weighted amount
Available stable funding		RO	RO
Tier 1 capital	100%	125,750,162	125,750,162
Tier 2 capital (excluding Tier 2 instruments with residual maturity of less than one year)	100%	7,217,776	7,217,776
Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	95%	29,120,809	27,664,769
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	90%	80,527,568	72,474,811
Funding with residual maturity of less than one year provided by non-financial corporate customers, Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks	50%	112,624,112	56,312,056
All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests)	0%	40,019,312	-
Total Available Stable Funding			289,419,574
Required stable funding			
Coins,banknotes and reserves with CBO	0%	45,778,462	-
All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs	50%	154,106,219	77,053,110
Unencumbered residential mortgages with a residual maturity of one year or more and woth a risk weight of less than or equal to 35% under the Standardised Approach	65%	149,598,725	97,239,171
Other unencumbered performing loans with risk weights greater than 35% under the Standardised Approach and residual maturities of one year or more, excluding loans to financial institutions.	85%	36,146,864	30,724,834
All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	100%	11,727,461	11,727,461
Sub total (A)		397,357,731	216,744,576
Off balance sheet exposures			
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	5%	497,000	24,850
Non contractual obligations such as potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities, structured products where customers anticipate ready marketability, managed funds that are marketed with the objective of maintaining a stable value	5%	10,287,227	514,361
Sub total (B)		-	539,211
Total Required Stable Funding (A+B)		-	217,283,788
NSFR (%)		-	133.19%

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)

		Dec-18	Dec-17
	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	(14,933,061)	(21,771,158)
3	Accumulated other comprehensive income (and other reserves)	1,140,782	389,622
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**	**138,298,913**	**130,709,656**
8	**Common Equity Tier 1 capital: regulatory adjustments**		
9	Prudential valuation adjustments	**(2,526,792)**	**(123,463)**
10	Unrealized losses		
11	Goodwill (net of related tax liability)	-	-
12	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(2,262,273)	(2,203,452)
13	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	***(1,397,270)***	(1,606,622)
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	**(349,318)**	**(1,071,081)**
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**	**(6,535,653)**	**(5,004,618)**
23	**Common Equity Tier 1 capital (CET1**	**131,763,260**	**125,705,038**
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	-	-

		Dec-18	Dec-17
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)**	**131,763,260**	**125,705,038**
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	7,142,919	7,142,919
51	**Tier 2 capital before regulatory adjustments**	**7,142,919**	**7,142,919**
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	56,643	79,627
56	Tier 2 capital (T2)	**7,199,562**	**7,222,546**
57	Total capital (TC = T1 + T2)	**138,962,822**	**132,927,584**
58	**RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT**		
59	OF WHICH: [INSERT NAME OF AJUSTMENT]	-	-
60	OF WHICH.....	-	-
61	Total risk weighted assets (60a+60b+60c)	**855,682,270**	**770,783,448**
62	Of which: Credit risk weighted assets	***797,090,550***	716,089,507
63	Of which: Market risk weighted assets	16,589,498	22,391,617
64	Of which: Operational risk weighted assets	42,002,222	32,302,324
65	**Capital Ratios**		
66	Common Equity Tier 1 (as a percentage of risk weighted assets)	**15.40%**	**16.31%**
67	Tier 1 (as a percentage of risk weighted assets)	**15.40%**	**16.31%**
68	Total capital (as a percentage of risk weighted assets)	**16.24%**	**17.25%**

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-18**	**Dec-18**	Dec-17	Dec-17
Cash and balances with Central Bank of Oman	**92,965,571**	**92,965,571**	42,813,968	42,813,968
Certificates of deposit	-	-	-	-
Due from banks	**6,399,549**	**6,399,549**	19,862,045	19,862,045
Islamic Financing	**696,469,613**	**696,469,613**	560,545,360	560,545,360
Investments in Sukuk and Securities	**50,033,874**	**50,033,874**	47,721,137	47,721,137
Financing to banks	-	-	-	-
Investment in Assets generated revenue	**14,175,000**	**14,175,000**	14,175,000	14,175,000
Property and equipment	**2,262,273**	**2,262,273**	2,428,106	2,428,106
Deferred tax assets	**2,028,586**	**2,028,586**	2,677,703	2,677,703
Other assets	**7,833,074**	**7,833,074**	6,414,652	6,414,652
Total assets	**872,167,540**	**872,167,540**	696,637,971	696,637,971
Liabilities				
Due to banks	**115,869**	**115,869**	19,338,529	19,338,529
Customer deposits	**711,275,205**	**711,275,205**	526,149,990	526,149,990
Current and deferred tax liabilities	-	-	-	-
Other liabilities	**23,587,664**	**23,587,664**	20,400,075	20,400,075
Subordinated Sukuk	-	-	-	-
Total liabilities	**734,978,738**	**734,978,738**	565,888,594	565,888,594
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	**1,140,782**	**1,140,782**	389,622	389,622
General reserve	**150,400**	**150,400**	3,975	3,975
Retained earnings	**(14,933,061)**	**(14,933,061)**	(21,771,158)	(21,771,158)
Cumulative changes in fair value of investments	**(1,260,511)**	**(1,260,511)**	35,746	35,746
Subordinated debt reserve	-	-	-	-
Total shareholders' equity	**137,188,802**	**137,188,802**	130,749,377	130,749,377
Total liability and shareholders' funds	**872,167,540**	**872,167,540**	696,637,971	696,637,971

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
Assets	Dec-18	Dec-18	*Dec-17*	*Dec-17*
Cash and balances with CBO	92,965,571	92,965,571	42,813,968	42,813,968
Balance with banks and money at call and short notice	6,399,549	6,399,549	19,862,045	19,862,045
Investments				-
Of which Held to Maturity	1,993,171	1,993,171	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	48,040,703	48,040,703	40,721,137	40,721,137
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	683,176,095	683,176,095	388,518,697	388,518,697
Islamic Financing to non-resident Customers for domestic operations	-	-	-	-
Islamic Financing to non-resident Customers for operations abroad	1,892,917	1,892,917	1,892,917	1,892,917
Islamic Financing to SMEs	11,400,601	11,400,601	7,395,742	7,395,742
Islamic Financing from Islamic banking window	-	-	-	-
Fixed assets	2,028,586	2,028,586	2,428,106	2,428,106
Other assets of which:	-	-	-	-
Profit Receivable	5,218,866	5,218,866	3,560,366	3,560,366
Prepaid Expense	307,839	307,839	386,614	386,614
Refundable Deposits	83,388	83,388	83,388	83,388
Goodwill	-	-	-	-
Other intangibles	2,262,273	2,262,273	2,203,452	2,203,452
Deferred tax assets	2,108,878	2,108,878	2,677,703	2,677,703
Others	114,103	114,103	162,918,836	162,918,836
Debit balance in Profit & Loss account				
Total Assets	872,167,540	872,167,540	696,637,971	696,637,971
Paid-up Capital	150,000,000	150,000,000	150,000,000	150,000,000

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
Assets	Dec-18	Dec-18	*Dec-17*	*Dec-17*
Of which:	-	-	-	-
Amount eligible for CET1	138,449,313	138,449,313	126,927,131	126,927,131
Amount eligible for AT1	-	-	-	-
Reserves & Surplus	(1,260,511)	(1,260,511)	35,746	35,746
Total Capital	137,188,802	137,188,802	130,749,377	130,749,377
Deposits Of which:	-	-	-	-
Deposits from banks	-	-	-	-
Customer deposits	711,275,205	711,275,205	526,149,990	526,149,990
Deposits of Islamic Banking window	-	-	-	-
Other deposits(please specify)	-	-	-	-
Borrowings Of which: From CBO	-	-	-	-
From banks	115,869	115,869	19,338,529	19,338,529
From other institutions & agencies	-	-	-	-
Borrowings in the form of bonds, Debentures and Sukuk	-	-	-	-
Others (Please specify)	-	-	-	-
Other liabilities & provisions Of which:	-	-	-	-
Creditors and Accrual	11,647,401	11,647,401	11,755,939	11,755,939
Payment Order	3,948,130	3,948,130	3,925,700	3,925,700
Profit Payables	5,238,333	5,238,333	4,532,723	4,532,723
Others	2,753,800	2,753,800	185,713	185,713
Total Equity and Liabilities	872,167,540	872,167,540	696,637,971	696,637,971

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 (e.g. 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	N/A
	Coupons/dividends	
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

Basel III leverage ratio framework and disclosure requirements - Reports for Year ended			31-Dec-18
			(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure

Please refer to paragraph 52 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January) (2014

	Item	Dec-2018	Dec-2017
1	Total consolidated assets as per published financial statements	**872,531**	696,634
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4	Adjustments for derivative financial instruments		
5	(Adjustment for securities financing transactions (i.e., repos and similar secured lending		
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of (off-balance sheet exposures	**36,726**	62,351
7	Other adjustments		
8	**Leverage ratio exposure**	**909,257**	758,985

Table 2: Leverage ratio common disclosure template

(Please refer to paragraph 53 of Basel III leverage ratio framework and disclosure requirements of BCBS issued in January 2014)

	Item	Dec-2018	Dec-2017
1	(On-balance sheet items (excluding derivatives and SFTs, but including collateral	**872,531**	696,634
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	(**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2	**872,531**	696,634
	Derivative Exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e., net of eligible cash var-(iation margin		
5	Add-on amounts for PFE associated with *all* derivatives transactions		
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	Deductions of receivables assets for cash variation margin provided in derivatives trans-) (actions		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**(Total derivative exposures (sum of lines 4 to 10**	**-**	-
	Securities financing transaction exposures		
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	**(Total securities financing transaction exposures (sum of lines 12 to 15**	**-**	-
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**131,868**	160,541
18	(Adjustments for conversion to credit equivalent amounts)	**(95,142)**	(98,190)
19	**(Off-balance sheet items (sum of lines 17 and 18**	**36,726**	**62,351**
	Capital and total exposures		
20	**Tier 1 capital**	**132,517**	122,218
21	**(Total exposures (sum of lines 3, 11, 16 and 19**	**909,257**	758,985
	Leverage Ratio		
22	**(%) Basel III leverage ratio**	**14.6**	16.1

APPENDIX- SHARIA SUPERVISORY BOARD RESOLUTIONS (FATWAS)

SSB Fatwa related to the investment in mixed shares and profit-purification mechanism

Sharia rulings along with their basis (religious evidence)

The Shariah Board reviewed the offer memorandum submitted by the Shari'ah Compliance Department regarding the investment in the shares of mixed companies and insurance companies and placed the following controls:
Resolution (3/22/05072017) changed in SSB meeting N (6/29/23122018):

1. It is permissible to invest and trade in shares of shareholding companies that are sharia compliant according to the conditions of islamic sale contracts.

2. It is not permissible to invest and trade in shares of shareholding companies with prohibited intent and activity whereby the company's activities are reliant on it, such as: riba-based banks and gambling companies, companies producing and selling forbidden foods and beverages, forbidden entertainment companies and traditional insurance companies. And the reference in knowing this is to their reality and practice.

3. In the case of companies whose activity is permissible but has elements of haraam in some of its dealings, such as taking or giving interest, acquiring and investing in sharia non-compliant transactions, or engaging in a sharia non-compliant activity in a subsidiary or affiliate; the haraam element only remains haraam, even though it is intermingled or has a minor contribution. However, it is permissible to invest and trade in shares of sharia compliant companies that have some element of haraam according to the following provisions and controls:
   a. That the amount of income generated from prohibited component does not exceed 5% of the total income of the company, irrespective of the income being generated by undertaking a prohibited activity, by ownership of a prohibited , if a source of income is not properly disclosed then more effort is to be exerted for identification thereof giving due care and caution in this respect.
   b. That the collective amount raised as loan on interest- whether long-terms or short- terms debt – does not exceed 33.33% of total assets of the Company or the average market value of the last twelve months whichever is more, knowingly that raising loans on interest is prohibited whatsoever the amount is.
   c. That the total amount of interest based deposits, whether long-terms or short- term debt, does not exceed 33.33% of the total assets of the company or the average market value of the last twelve, whichever is more, knowingly that interest based deposits are prohibited whatsoever the collective amount is.

4. The following must be added to the conditions of trading in shares of Takaful companies:
   a. Adherence of the insurance company to Shari'ah principles in its business.
   b. The insurance company shall have a SSB.
   c. The insurance company shall have an internal sharia control.
   d. The existence of periodic or annual reports on the sharia performance of the insurance company presented to its shareholders.

5. Method of reading the financial statements:

   The following is to be used as a reference to know the activities of the company and the percentages determined for entry into the investment and trading shares of companies is:
   i. The earliest financial statements, audited or unaudited, whether annual, quarterly or monthly, and if the nature of certain items are not disclosed, then we attempt to identify them.
   ii. Unless otherwise stated in the financial statements, such as: advertising in official channels such as through circulation, market authority, or certified correspondence from the company, its financiers, or the responsible parties, whether for the past or subsequent periods of the lists issued by the company.
   iii. Investments transactions authorized by Shari'a Boards are originally not included in prohibited transactions. Also, Islamic finance contracts, which do not apply proper sharia standards, are considered among prohibited transactions, such as debt rescheduling, Inah transactions, etc.
   iv. The terms of prohibited transactions included in the financial statements are three types; finance, investment and income, unless otherwise proven and detailed as follows:
      1. Bank loans, credit facilities, bank accounts payable, bank overdrafts, commercial loans, and the rolling premium of a long-term loan (i.e. the amount to be repaid during the year from the long-term loan) and the debt that has been rescheduled.
      2. Investment terms/vocabulary that are contrary to Shari'ah regulations such as: bank deposits, bonds and instruments which the SSB considers to be non-sharia compliant in its contracts and applications, short-term investments, current accounts (with commissions), and loans to other companies (Interest-bearing loan).

3. Income terms/vocabulary arising from transactions that are contrary to Shariah principles such as : income from bonds, bank commissions, income from deposits (bank interest), loan income, prohibited share income (such as conventional bank shares) and income from prohibited funds.

v. There are terms in the financial statements that need to be looked at in accordance with their attached notes and the correspondence of the companies, and the action to be taken is determined through analyzing its data and evidence. Examples include: cash in the fund or bank, cash and cash equivalents, investments, other investments, investment income, accounts payable or other receivables, other income, miscellaneous income, bank balances, demand deposits or other credit balances, loans of subsidiaries and unused bank facilities.

6. All the above controls shall apply the following:

a. To invest by acquiring the share for the purpose of its annual dividends.

b. Trading, selling and buying in order to profit from the difference between the two share prices.

c. Management of shares such as in funds and investment portfolios e.g. Ijara or Mudarabah , and investment in funds managed by third parties whereby it is approved by and established SSB and is under their supervision.

d. Brokering , as well as brokering in trading, through the following conditions:

It is not permissible to manage an investment portfolio that includes shares that are sharia non-compliant, unless it is for the purpose of restructuring to dispose off the forbidden shares because it is a matter of helping to dispose sharia non-compliant income, the bank must the dispose the brokerage fee which is also sharia non-compliant and notify the client accordingly of the percentage that needs to be disposed.

7. In additional the rules for purification mechanism ,the share's portion of prohibited revenue mixed with corporation's revenues should be disposed of as per the following:

A. Prohibited revenue should be disposed of by the owner of shares, whether an investor or trader; at the end of the financial period, whether quarterly, annually, or other periods; and whether revenue is generated from prohibited activity, ownership, or from interest; and even if payment of profit is due upon issuing final financial statements. As such, the seller of shares, before the end of the financial period, is not obligated of disposal.

B. Disposal subject matter is the share's portion of prohibited revenue, whether dividends are distributed or not, and irrespective if the corporation is in profit or loss.

C. The intermediary, or agent, or manager is not obliged to dispose of part of commission or fees, being entitlement for performed work.

D. The amount to be disposed-of, is determined by dividing the total prohibited revenue of the corporation by the number of shares of this corporation; and the result is the relevant amount for each share, which is then multiplied by the number of shares owned by the shareholder; whether an individual, company, fund, or other entity; the result of which is the amount that should be disposed-of.

E. It is not permitted to benefit from the prohibited element, which should be disposed-of, by any mode of benefit, and without trickery to benefit in any manner, even by paying taxes.

F. Disposing of prohibited revenue, in favor of charitable causes, is the responsibility of IFI, if dealing for itself or managing the activity. However, if IFI is acting as intermediary, IFI should inform the shareholder of the disposing mechanism of prohibited element, to be implemented by shareholder; and IFI is entitled to render this service with or without fees, for interested shareholders.

G. IFI should apply the mentioned regulations, whether executed by IFI or by others, and whether dealing is for IFI or for others on the basis of intermediation, or money management such as funds, or on agency basis for others.

H. These regulations should be applied during participation or dealing period. If these regulations are distorted, it is then mandatory to exit from the investment.

8. General Provisions:

a. If the conditions of the companies change so that it is not in compliance with previous controls made for investment and trading shares of companies, the shares must then be sold immediately from the date the non-compliance becomes known and the proceeds must be then purified according to the specific sharia standard which states to calculate the percentage of interest income in each share and then purify that amount according to the number of shares he owns according to the financial statements at the end of that financial year. If the direct sale of the shares will cause a loss, the shareholder should then wait no later than ninety days from the date of knowledge of their change until the purchase price is recovered. If the purchase period expires, he then sells at the available price, and the profits earned will be forgiven and he will not be required then to dispose the share but only purify it.

b. There is no objection to invest or act as a broker in shares of permissible companies that comply with the prescribed Shari'ah regulations if the amount exceeded the percentage determined for one of the Shariah controls is in proportion to the next correct number, with this company being committed to other controls.

c. Investment guidelines and trading in listed preferred shares - if available in the Omani market – should not be sold separately but must be part of the share.

SSB Fatwa related to FX Wa'ad

Meeting N (27/3/ 19/07/2018) changed in SSB meeting (6/29/23122018)

Sharia rulings along with their basis (religious evidence)

The Sharia Supervisory Board has reviewed the contracts and agreements related to the FX Waad product, and have confirmed that it's in conformity with Sharia rules and resolutions, and with the AAOIFI standards 1 and 49.

Contracts and forms to be used in this product:

1. FX Waad agreement.
2. Binding purchase Promise with Acceptance Notice (Schedule 1)
3. Offer to Purchase with Acceptance Notice (Schedule 2)
4. Early Exercise Notice with Acceptance Notice (Schedule 3).
5. Disinterest to implement the deal notice.

SSB Fatwa related to Post Dated Cheques Management Services

Sharia rulings along with their basis (religious evidence)

Product Concept

Post Dated Cheque Management Service (PDCMS) is a service for our customers through which they can handover their Post Dated Cheques (PDCs), made in their favor, to Bank Nizwa for safekeeping and presenting them on future due date, under their account with us.

The Sharia Supervisory Board confirms and declares that" Post Dated Cheques Management Services PPD" is compliant to sharia principles and rules, as issued by AAIOFI specially sharia standard (16) Commercial Papers clause (2) and (4) and (28) Banking Services in Islamic Banks clause (2/1), (2/5), and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

Dr. Abdul-Sattar Abu-Ghuddah
Chairman of Sharia Supervisory Board ______________________________

Dr. Sheikh Muhammad bin Rashed Al Gharbi
Member of Sharia Supervisory Board ______________________________

Sheikh Ibrahim bin Naser Al Sawwafi
Member of Sharia Supervisory Board ______________________________