ANNUAL REPORT 2017

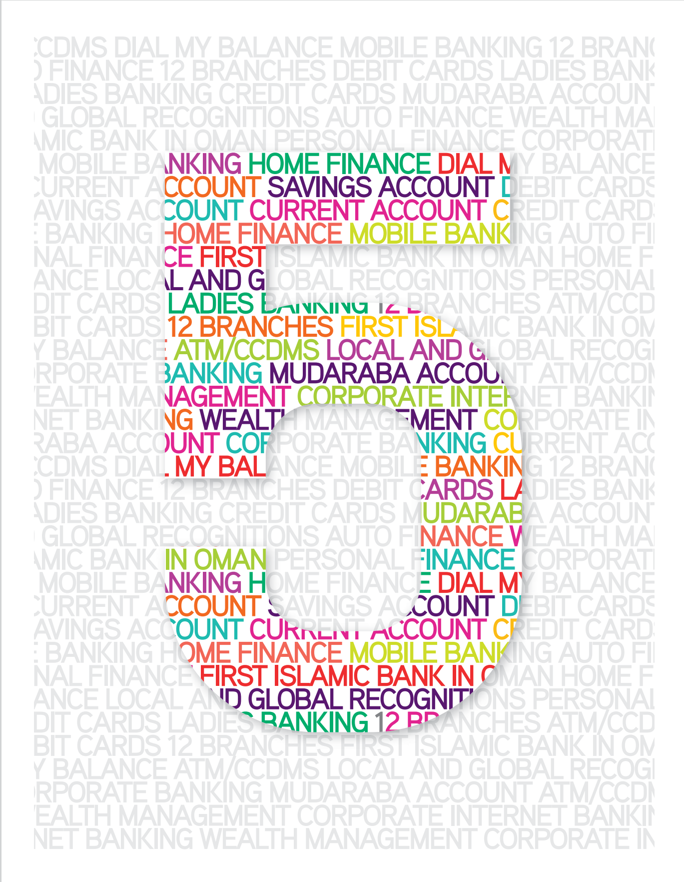
Celebrating 5 Years of Achievements

الذكرى الخامسة
5th Anniversary

The First Islamic Bank in Oman

بنك نزوى
Bank Nizwa

HIS MAJESTY SULTAN QABOOS BIN SAID



Celebrating 5 Years of Achievements

Always aiming for higher achievements

The year 2017 marked the fifth year of sustained growth for Bank Nizwa, the first dedicated Islamic bank in Oman.

In each year of operation, we recorded new milestones and set new benchmarks in the sector.

Today, our strategy for the future is perfectly aligned to our Vision to be the Islamic banking partner of choice for individuals and enterprises in the Sultanate – with a growing network of branches; evolving portfolio of products & services; innovative banking channels; several prestigious awards; a host of outreach initiatives; and a fast-growing customer base.

Contents

BOARD OF DIRECTORS

(LEFT TO RIGHT)

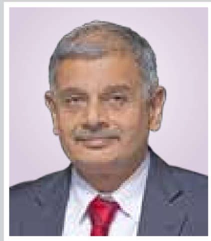
MR. HUSSAIN YOUSEF DAWOOD AL SHALWANI - BOARD MEMBER
SHEIKH ABDULAZIZ KHALIFA ABDULLAH AL SAADI - BOARD MEMBER
MR. MUSABAH SAIF MUSABAH AL MUTAIRY - BOARD MEMBER
H.E SHEIKH AHMED SAIF AL RAWAHI - VICE CHAIRMAN
SAYYID AMJAD MOHAMMED AHMED AL BUSAIDI - CHAIRMAN
SHEIKH MUADH SALIM AL GHAZALI - BOARD MEMBER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

MANAGEMENT TEAM

MR. KHALID JAMAL AL KAYED
Chief Executive Officer

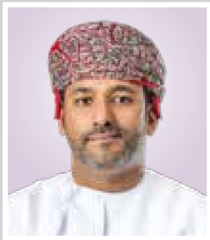
MR. R. NARASIMHAN
General Manager Wholesale Banking

MR. NASSER SAID AL LAMKI
General Manager Internal Audit

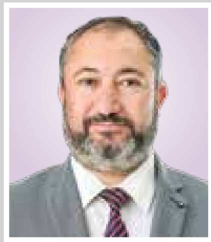


MR. SHANTANU GHOSH
Deputy General Manager Operations

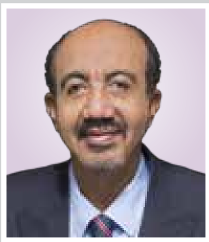
MR. MOHAMED FIDA HUSSAIN
AGM Risk Management



MR. SALIM RASHID AL MAHARBI
Acting Chief Financial Officer



DR. MANSOOR AL QUDAH
Head of Sharia Compliance



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

MR. AKBAR ABDUL RASHEED AL BALUSHI
Head of Compliance

MR. MOHAMMED MAHMOOD AL BALUSHI
Head of Information Technology

MR. KHALID ABDULRAHMAN AL ZADJALI
Head of Human Resources

MR. ARIF MAQBOOL AL ZAABI
Acting Head of Retail

H.H. SAYYIDA WISAM JAIFER Al SAID
Acting Head of Marketing & Communications

CHAIRMAN'S REPORT

For the financial period ended
31 December 2017

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 2017. 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 year 2017 will be remembered as a year of historical milestones for the bank. The most encouraging developments in the year include the bank's recording of net profit from the beginning of the year and its recognition as the 'Pioneer Islamic Bank in Oman', 'Strongest Islamic Retail Bank' and 'Best Islamic Services and Products in Oman' by reputed regional and international agencies. 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 2017 towards achieving our strategic ambitions, and to set out our plans for 2018 and onwards.

In 2017, the business environment continued to be challenging for the financial services industry, as a result of slow growth in key economic sectors, tightened liquidity position, and increased competition in the market. Despite the challenges, the year proved to be encouraging given the consistent growth in the Islamic finance sector. The growth in the sector has out-performed the market and we believe that it has enormous potential and opportunities to grow in the future.

Against this backdrop, your Bank has turned in a commendable financial performance by registering a net profit of 3.8 million Omani Rials 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.

While navigating a challenging business environment in 2017, we remained focused as a Sharia compliant financial services provider in accordance with clear principles and values. We particularly adhered to our commitment of operating responsibly and sustainably in the interests of our shareholders. The Bank's CSR initiatives have gained due recognition with an award for 'Excellence in CSR in Islamic Finance' in Oman endorsing our efforts to continuously enhance and impact the community to further improve financial wellbeing of our people and the broader community.

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 as per the bank requirements.

FINANCIAL PERFORMANCE

The focus on balance sheet management has been a key priority for the year. The Bank's total assets grew by 35% to reach 697 Million Omani Rials compared to 516 Million Omani Rials last year. Gross financing portfolio grew by 41% to reach 568 Million Omani Rials while total customer deposit portfolio reached 526 Million Omani Rials recording a significant growth of 50% year-on-year. This growth in financing portfolio in both businesses, retail and corporate, has provided the momentum needed to continue our growth trajectory. This momentum will enable us to achieve our long term objectives.

Operating income for the year 2017 increased by 29% whereas operating expenses have increased by only 4% reflecting dedicated and strategic efforts in cost management. This has led us to achieve a net profit after tax of 3.8 Million Omani Rials. This is considered an important milestone towards meeting the Bank's strategic plans of improving the performance and write-off the accumulated losses. Despite the more challenging year for liquidity, the Bank's balance sheet remains strong due to excellent asset quality and robust capital ratios.

FUTURE OUTLOOK

2018 began with the optimism that had started from last year. Regional governments are embracing more expansionary policies and financial markets are being boosted. 2017 ended with constructive economic data, kick-starting a strong entry into 2018.

With robust global growth, the Omani economy growth is expected to recover and it is projected that GDP will grow by 3% with the banking sector credit expected to grow by 8% to 10%. This is driven by oil price recovery and efforts to diversify the economy and improve the investment climate. The GCC economies are anticipated to lead stronger growth in the region, supported by easing fiscal adjustment, infrastructure investment and reforms to promote non-oil sector activity. Strengthening private consumption and investment are anticipated to support stronger growth in the region. Growth among the GCC countries as a group is forecast to pick up to 2% in 2018 from 0.7 percent in 2017.

Prudent fiscal management will continue in 2018 as the budgeted deficit is kept on track as planned. The budget is based on a conservative oil price of US$ 50/bbl., which is the average realized price in 2017. Oil markets will continue extending their gains from 2017. While we expect oil prices to be higher on average in 2018, the Government will continue its rationalization of government 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 if the Government accelerates the reform process including issuing the new public private partnership (PPP), foreign capital investment and bankruptcy laws to foster private sector participation. 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 is not only to improve the investment climate and promote public private partnership but also to give significant support to the small and medium enterprises by allocating some of the government projects to this sector and to ensure the swift implementation of the National Programme for Enhancing Economic Diversification ('Tanfeedh') initiatives. The positive recent fiscal and government initiatives providing support to the economy will increase demand for credit. The outlook for 2018 remains positive with numerous sectors expecting growth such as manufacturing, tourism, logistics, mining, fisheries, and trade.

The Sultanate's economic environment and specifically the banking sector will continue to capitalise on its key competitive advantages to show further resilience in a volatile economic backdrop. In addition, local authorities are working on enhancing the Omani model as the government has postponed the implementation of Value Added Tax (VAT) until 2019 which will help the government observe the experience of neighboring countries. However, the Government will start selectively taxing some goods in mid-2018 in line with its vision of gradual fiscal consolidation.

Going forward, 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 2018, as well as diversifying our customer base across product and service lines. We are also continuing to strengthen our channels of distribution through digitisation 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 2018 being another successful year for Bank Nizwa.

Amjad bin Mohammed Al Busaidi
Chairman

Building a better
working world

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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 2017 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 2017. 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 2017 and does not extend to any financial statements of Bank Nizwa SAOG, taken as a whole.

Ernst & Young LLC

Muscat
28 February 2018

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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 the letter and spirit of the Code of Corporate Governance laid out by the Capital Market Authority (CMA) and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO).

Corporate Governance is the system of rules, practices and processes by which the Bank is directed and controlled. Corporate governance essentially involves balancing the interests of all 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 that 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 Board is responsible for approving the financial statements of the Bank, and the overall compliance of the Bank with the applicable rules and regulations. The Board continuously protects and enhances shareholders' value by looking after the Bank's overall corporate governance. The Board members have acknowledged that they shall, during the term of the Board, remains compliant with the applicable rules and regulations, and they shall inform the Bank of any changes in their status which might affect their category or status. The Bank 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 Mohammed 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	1
4. Mr. Hussain Yousef Dawood Al Shalwani	Non-Executive	Independent	0
5. Sheikh Saif Hilal Nasser Al Mawali	Non-Executive	Independent	0
6. Sheikh Muadh Salim Ahmed Al Ghazali	Non-Executive	Independent	0
7. H.E. Sheikh Ahmed bin Saif 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.

H.E. Sheikh Ahmed bin Saif 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 36 years of experience in Oman's government and 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 14 years. Sheikh Abdulaziz also holds a Master's degree in Accounting in addition to an ACCA certificate. He is also currently a board member at Muscat Gas Company.

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 such as 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 has a Masters of Business Administration with a specialisation in Finance from the University of Lincolnshire Humberside (UK) and currently is also holding a position as a board member in Oman Takaful insurance.

Sheikh Muadh Salim 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 33 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 Organisations and Foreign Relations. He has served as the Custom Clearance Officer at the Sultan Qaboos Port and also as the Customs Liaison Officer of 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 Khalid Abdullah Ali Al Khalili - Member

Sheikh Khalid has over 19 years of experience as a businessman in various industries including retail, international agencies, 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 2017, the Board has conducted 7 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 2017

Name of director	30/1/17	26/2/17	27/4/17	18/6/17	27/7/17	29/10/17	19/11/17
Sayyid Amjad Mohammed Ahmed Al Busaidi	√	√	√	√	√	√	√
H.E. Sheikh Ahmed Saif Muslam Al Rawahi	√	√	√	√	X	√	√
Sheikh Khalid Abdullah Ali Al Khalili	√	√	√	√	X	√	√
Mr. Hussain Yousuf Dawood Al Shalwani	√	√	√	√	√	√	√
Sheikh Abdulaziz Khalifa Abdullah Al Saadi	√	√	√	√	√	X	√
Sheikh Saif Hilal Nasser Al Mawali	√	√	√	√	√	√	√
Sheikh Musabah Saif Musabah Al Mutairi	√	√	√	√	√	√	√
Sheikh Muadh Salim Ahmed Al Ghazali	√	√	√	√	√	√	√

Board of Director has received an amount of RO 64,050 as sitting fees for the year ended December 31, 2017, which includes the Board sub-Committees, where the sitting fees 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, 2017 is RO 817,256 of which RO 115,000 was paid as end of service benefits.

Committees of the Board

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

Board Executive Committee

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

Executive Committee	
Name of Members	No. of Meetings Attended
H.E. Sheikh Ahmed Saif Al Rawahi (Chairman)	6
Sheikh Khalid Abdullah Ali Al Khalili	6
Sheikh Saif Hilal Nasser Al Mawali	6
Sheikh Abdulaziz Khalifa Abdullah Al Saadi	5
Total Number of Meeting Held During the year:	6

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 and the Bank's process for monitoring compliance with local laws and regulations affecting financial reporting.

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

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.

Board Governance Risk and Compliance Committee	
Name of Members	No. of Meetings Attended (BGRCC) meetings
Sheikh Musabah bin Saif Al Mutairy - Chairman	3
Sheikh Muadh Salim Ahmed Al Ghazali.	2
Sheikh Abdulaziz Khalifa Abdullah Al Saadi	3
Total Number of Meeting Held During the Year:	3

Evaluation of Board Members

As per the Charter of the Organisation and Management of Public Shareholding Companies issued by the Capital Market Authority, the Annual General Meeting held on 21/3/2017 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 was incorporated with a capital of RO 150 million. The Bank's shares are listed on the Muscat Securities Market. The Shareholders holding more than 5% as on December 2017 are tabulated hereunder:

Major shareholders	%
Al Ghadeer Investment	8%
Civil Services Employee Pension Fund	6.874%
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-17	0.087	0.086	0.087	7,947.800	7,924.130	7,947.800	7,939.910
Feb-17	0.090	0.089	0.089	8,204.030	8,158.610	8,164.630	8,175.757
Mar-17	0.095	0.093	0.094	7,865.040	7,834.300	7,834.310	7,844.550
Apr-17	0.093	0.092	0.092	8,066.490	8,045.010	8,055.710	8,055.737
May-17	0.097	0.093	0.095	8,061.560	8,014.600	8,061.560	8,045.907
Jun-17	0.094	0.093	0.094	7,720.800	7,676.720	7,677.100	7,691.540
Jul-17	0.094	0.092	0.093	7,574.520	7,527.440	7,529.590	7,543.850
Aug-17	0.093	0.092	0.093	7,458.400	7,437.030	7,453.190	7,449.540
Sep-17	0.092	0.091	0.092	7,544.270	7,496.740	7,509.400	7,516.803
Oct-17	0.091	0.090	0.090	7,147.540	7,126.130	7,145.020	7,139.563
Nov-17	0.093	0.092	0.093	7,453.250	7,416.660	7,451.720	7,440.543
Dec-17	0.091	0.089	0.090	7,474.670	7,414.460	7,474.160	7,454.430

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 2017, the Central Bank of Oman levied a monetary penalty of RO. 25,500/- (Rial Omani Twenty Five Thousand Five Hundred) out of which RO 7,500 (Rial Omani Seven Thousand Five Hundred) was on account of non-compliance related to some operations issue(s) identified in 2016. However, the Bank has already initiated corrective measures to set the situation right and is in compliance with the issue(s) raised by the Regulator in this regard.

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

Regulator(s)	2015	2016	2017
Capital Market Authority	NIL	NIL	NIL
Central Bank of Oman	RO 7,500	RO 5,600	RO 25,500

The Bank follows regulatory guidelines which is comprehensive for related party and Corporate Governance issued by CBO and CMA.

Dividend Policy

The Bank's dividends policy complies with the CBO and Capital Market 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 21 March 2017, members of the Sharia Supervisory Board ("SSB").

The current SSB Members include the following scholars:

1. Sheikh 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 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 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 checklists 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 2017:

Name of Director	Position	27/02/2017	9/04/2017	5/7/2017	20/9/2017	12/11/2017
Sheikh Dr. Abdul Sattar Abu Ghuddah	Chairman	√	√	√	√	√
Sheikh Mohammad Al Gharbi	Member	√	√	√	√	√
Sheikh Ibrahim Al Sawwafi	Member	√	√	√	√	√

Sharia supervisory board has received an amount of RO 53,000 as sitting fees for the year ended December 31, 2017, which included the SSB sub-Committee.

Details of attendance in Sharia executive committee meeting held during the year 2017:

Executive Committee	
Name of Members	No. of Meetings Attended
Sheikh Dr. Mohammad Al Gharbi	9
Sheikh Ibrahim Sawafi	9
Total Number of Meeting Held During the Year:	9

Details of payments done for Sharia executive committee during the year 2017:

No	Member	Total
1	Sheikh Dr. Abdul Sattar Abu Ghuddah	R.O 15,000
2	Sheikh Dr. Mohamad Al-Gharbi	R.O 19,000
3	Sheikh Ibrahim Sawafi	R.O 19,000
	Total	R.O 53,000

SHARIA SUPERVISORY BOARD MEMBERS PROFILE

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

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

He is an active member of Islamic Fiqh Academy evolving from the Organisation of Islamic Assembly in Jeddah, KSA, and a member of the Sharia Supervisory Board of the Accounting and Auditing Organisation 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. Abu 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 bin Nasser Al Sawwafi (Member)

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

As an eminent scholar, he contributes to various radio and television 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 Sawafi holds a degree of high judicial license from the Sharia Justice Institute, graduating with distinction, and is a prominent professional Sharia Auditor, certified by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

PROFILE OF MANAGEMENT TEAM:

Mr. Khalid Jamal Al Kayed, Chief Executive Officer – Over 25 years of banking experience with reputed domestic and international banks both conventional and Islamic with a proven track record of building two start-up Islamic banks from scratch. Mr. Al Kayed has been associated with the Bank since inception. Previously he was associated with Jordan Dubai Islamic Bank (JDIB) as the Deputy CEO – Chief of Finance. Prior to JDIB, he held various senior roles, including CFO, with Standard Chartered Bank, Jordan, Jordan National Bank, Cyprus and Jordan National Bank. He is a Certified Management Accountant (CMA) and Certified Financial Manager (CFM) from Institute of Management Accountants. He has an MBA from University of Liverpool.

Dr. Ashraf Nabhan Al Nabhani, GM Corporate Support (Resigned) - Previously held the positions of Deputy CEO at Muscat Securities Market and the Dean of the College of Banking & Financial Studies, after having worked for several years in the Ministry of Finance & Economy and the Capital Market Authority; has been on the Board of a number of newly established listed companies. He received his PhD in Financial Markets from the University of Cambridge in the UK. Dr. Ashraf is currently a board member at the College of Banking and Financial Studies and the Chairman of Muscat Securities Market. He resigned from the Bank due to personal reasons on 7/12/2017.

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. Prior to joining Bank Nizwa, Narasimhan spent years working in executive roles for some of the largest and most recognized financial institutions in Asia. He started his career as a direct recruit officer in a public sector bank in India in 1979, Narasimhan later joined IDBI Bank as Vice President in 1996 and finished at the post of Senior Vice President and Head of Corporate Banking. Then he moved to the Sultanate of Oman to 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 – An MBA in Leadership and Sustainability from University of Cumbria, UK with over 21 years of banking experience. Prior to joining the Bank, 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. He has also led Operations and Information Technology functions in his past experience where he strengthened the bank's operations and technology infrastructure platform to drive greater resilience, efficiency, organisational flexibility and innovation.

Mr. Shantanu Ghosh, DGM Operations – Has over 35 years of working experience. Mr. Ghosh was DGM Operations, Information Technology and E-channels in one of the leading banks in Oman. He worked as Head of Central Banking & Capital Markets in iGate Patni which is a provider of IT services & Business solutions and is a subsidiary of iGATE Corporation. Between 2001 and 2007 he was the Country Head for Retail Banking in India for ING Bank. Mr. Ghosh holds a Master in Economics and Post Graduate Diploma in International Trade.

Mr. Mohamed Fida Hussain, AGM Risk Management - Has over 25 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 held senior management positions at a leading Government specialised 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 had also worked as member of various committees, participated in various task forces concerning banking and development issues. He conducted research with other ministries and international Organisations working at the Ministry of Finance, Ministry of Agriculture and Fisheries, Ministry of National Economy, PEIE, and The World Bank. He served as part time lecturer at College of Banking and Financial Studies (CBFS).

Mr. Salim Rashid Ali Al Maharbi, Acting Chief Financial Officer - Has 22 years of banking experience with domestic and international bank. Prior to joining Bank Nizwa, he was Chief Manager, Commercial and Finance at Bank Sohar. He is a Certified Islamic Professional Accountant, Certified Accounting Technician from ACCA UK, holds B.A. Honors degree in Accounting from University of Bedfordshire, UK. He has varied experience in the field of Financial Reporting, Financial Accounting, Management Accounting, Internal Controls, Business Planning and Performance Management.

Dr. Mansour Al Qudah, Head of Sharia Compliance - Has over 18 years of experience in the Islamic Banking and Sharia audit sector. He worked in Jordan Islamic Bank as a Sharia board secretary and Sharia audit manager and in the Saudi-based Alinma Bank as the Assistant General Manager of Sharia Group as well as section manager of Sharia policies and procedures auditing. He joined Bank Nizwa in 2017 as the Head of Sharia Compliance.

Dr. Mansour has a PhD in Islamic Banking and Economics from the University of Yarmouk in Jordan. In addition, he has many professional certificates including the following:

- Professional Diploma in Accounting and Auditing - Arab Academy for Banking and Financial Sciences Amman - Jordan - in 2002.
- Certified Islamic Banker (CIB) - CIBAFI

- Certified Islamic Specialist Sharia Auditing (CISSA) – CIBAFI

Mr. Tariq Mohammed Osamn, Head of Legal Department and Board Secretary – Has 35 years of experience. Mr. Tariq is a legal veteran in the Banking and financial institution sector with 12 years in Dubai Islamic Bank – UAE and 13 years in a financial corporation. He holds a Master's degree on commercial law.

Mr. Akbar Al Balushi, Head of Compliance, 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 specialised Investment and Islamic Banking).

Mr. Mohammed Al Balushi, Head of Information Technology - Has 22 years of experience in the field of Information Technology in Financial Institutes. 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 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.

Mr. Khalid Abdulrahman Al Zadjali, Head of Human Resources - Professional career spanning over 17 years. He is an MBA in Business Management and have 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, integrate and align 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, Organisational efficiency, and cost effectiveness.

Mr. Arif Al Zaabi, Acting Head of Retail - Has over 20 years' experience in the banking industry. His experience covers the entire spectrum of Commercial & Investment Banking; with expertise and experience in the management of Branch Banking, Retail Banking and Sales. Mr. Arif's previous posts included that of regional manager and branch manager at both the National Bank of Oman and Alliance Housing Bank.

H.H. Sayyida Wisam Jaifer Al Said, Acting Head of Marketing & Communications - With 11 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.

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 6,700 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 4,500 partners and approximately 1,06,079 professionals. Globally, EY operates in more than 150 countries and employs 256,500 professionals in 728 offices. Please visit ey.com for more information Abut EY.

E&Y in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's). For the year 2017, total remuneration of OMR 50,300 is approved for E&Y towards professional services rendered to the Bank (OMR 31,800 Audit, OMR 4,500 Sharia Audit, OMR 14,000 IFRS – 9 Agreed upon procedure).

Declarations

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

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

MANAGEMENT DISCUSSION & ANALYSIS REPORT

For the financial period ended 31st December 2017

Khalid Al Kayed
Chief Executive Officer

The Management Discussion and Analysis Report is a detailed overview of Bank Nizwa's business for the fourth financial year which covers the period from January 1, 2017 to December 31, 2017.

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

POISED FOR GROWTH

The Islamic finance sector in Oman witnessed unparalleled growth over the last five years. With two full-fledged Islamic banks and six Islamic windows, Sharia compliant banking assets accounted for 12% of Oman's total banking assets in 2017 and are projected to reach 15% by 2018. The financing assets of Islamic banks have grown to OMR 3.03 Billion, an increase of 25% since December 2016 and deposit has grown to OMR 2.9 Billion, an increase of 36% since December 2016. A key contributor to this unprecedented traction in the market has been the increased awareness on the benefits of Islamic banking amongst individuals and businesses alike; a responsibility Bank Nizwa has taken upon itself to continue to lead.

Bank Nizwa's financial performance this year demonstrated solid growth throughout its operation, reinforcing its leadership position within the sector. The Bank's customer financing portfolio, deposits, assets and operating income all reported substantial growth and as a result, the Bank achieved a historical milestone by recording net profit for the first time from the beginning of the year. 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.

The operating environment of 2017 was challenging in terms of liquidity and profitability. However, the Bank continued to take a rigorous approach in planning and tracking its spending in 2017 by restructuring its costs to address narrowing margins. Despite growth in operations, the Bank's operating expenses were managed in line with income growth, thereby improving the headroom between cost and income growth. The improvement of the Bank's cost to income ratio on a monthly basis is the result of our transformation initiatives across our High-Five strategies.

The Bank's balance sheet continued to strengthen, with further improvements in capital, liquidity and a stable credit quality profile. Good progress was made in advancing our digital agenda and we are pleased to be recognized for our achievements by reputed regional and international awarding agencies. Bank Nizwa will continue to focus on retaining its position as a leading full-fledged Islamic bank by enhancing its market share as well as its product and service offerings.

COUNTRY ECONOMIC & BUSINESS ENVIRONMENT

Global economic activity remained largely subdued in 2017. Accordingly, economic growth in Oman slowed down in 2017, as low oil prices, rating cut 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.

In 2017, Oman joined most OPEC non-members in participating in oil production cuts, leading to a contraction of the hydrocarbon sector. As public spending declined, non-hydrocarbon GDP growth also slowed down with a knock-on effect on consumption and investment. As a result, real GDP growth slowed down in 2017 compared to 2015 and 2016 where high oil production levels (1 million barrels per day) drove overall growth.

In order to control the fiscal budget, the Omani government embarked on efforts to rationalise spending and diversify the sources of revenues. In addition, adjustments were made in the government's medium term fiscal consolidation plans.

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 7% 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 3 percent in 2018-19 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 dwindling oil prices and expanding budget deficit, the banking sector continued its trajectory of growth. Total credit of the banking sector crossed OMR 23.5 Billion by the end of Dec 2017, thus registering a growth of OMR 1.4 Billion or 6.4 percent during the year. On the other hand, total deposits held with banks increased by 5.6 percent. The credit-to-deposit ratio soared to 109 percent at the end of December 2017 from 107 percent a year earlier.

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 capitalised, 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.

The Omani government will cushion the impact of lower oil prices on the economic growth by maintaining high levels of public spending despite its relatively lower oil related revenues. Though with the increase in oil prices, government revenues are increasing. Consequently, we expect real GDP growth to improve gradually to 3% in 2018. This reflects the economy's reliance on general government expenditure, which government has committed to limit it's spending to not exceed more than 40% to 45% of GDP in 2018. Improving economic growth will create credit demand, thereby expecting the credit growth to 8%-10% in 2018.

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 Sharia-based financial institution in the business of both intermediation and participation that would lead to economic, social and ethical wellbeing of the society. The Bank's overall service proposition is divided into Personal Banking, Corporate & Commercial Banking and Financial Markets & Investments, with customers being served through multiple channels including branches, direct sales, call centre, ATM/CCDMs, 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 Sharia 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 Abut positive change in Oman's retail banking space, prompting other institutions to re-examine their product and service offerings.

2017, being a difficult year for the economy, we consolidated our base and took a number of initiatives to enhance the customer experience and strength our position as the leading Islamic bank. Adding to our existing product suite, we launched our Wealth Management segment, introduced the Recurring Deposits scheme, Ready Property Murabaha and FX services.

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.

Our Cards provide a range of offers and discounts available at various merchants locally and regionally. In 2017, we launched an "Offers" mobile application which captures all our discounts and offers on one convenient platform.

Moving towards financial inclusion and a digital economy, 2017 marked the launch of our 'e-wallet'. The new application is a digital platform that allows customer and non-banking customers to conduct instant fund transfers through their mobiles. To provide customer convenience we introduced various new services across all our electronic platforms namely IVR/phone banking, mobile banking, internet banking, ATM/CCDM machines, SMS and Email.

Continuing with the philosophy of bringing the Bank closer to its customers, we launched our 12th branch at Maabela, Muscat. Strategically located, this branch caters to the residents and businesses of the area. The branch will also be able to cater to the needs of the nearby industrial areas.

In addition, without compromising service quality and customer experience, the Retail division undertook numerous initiatives to optimise revenue and reduce costs wherever possible.

During the year, Retail Banking further consolidated its position as the leader in Islamic Bank in Oman by increasing its customer base (in 2017) by over 18%, 31% increase in Retail deposits and 20% growth in assets. All the 12 branches (located at geographically-strategic locations across Oman) continue to provide excellent service and the best possible financial solutions by analysing the customer need and profile.

In 2018, the Bank aims to further expand its network and customer-base through value-added services and by offering a rewarding and enriching experience.

Wholesale Banking

The Wholesale Banking Group was revamped at the beginning of FY-2017, to further enhance the commitment of providing dedicated, tailor-made services to our corporate clients. A dedicated team for corporate client services has been established to ensure speedy services, quick Turn around Time (TAT) and interdepartmental coordination. In addition, the Project Finance & Syndication department merged with the team catering to large corporates to ensure synergy, efficient risk appraisals and coordination. A dedicated team operating under the Investment Banking department was formed to cater to government business.

Corporate Banking

The Corporate assets book recorded a substantial increase for the year 2017. During the year, one of the major milestone in customer service has been the launch of Internet banking for corporate clients. In addition to this, the corporate banking team served all industry segments thus spreading Islamic finance services across the industries. The bank takes pride in the exceptional relations it has built which resulted in maintaining the quality of assets despite subdued economic activity on account of low oil prices for most of the year. With tailor -made Shari's compliant products, the Bank successfully acquired many clients throughout the year from various regions across the Sultanate.

Project Finance

Launched in 2015, the Project Finance and Syndications unit represents a relatively new business function under Wholesale Banking. Since its launch, the department has done tremendously well having closed a number of milestone transactions in the Oil & Gas, Building Material, Waste Management and Industrial Sectors. The team is actively working to carve out a niche market and play an active role in the Sultanate's Project Finance & Syndication market. The Bank has several other transactions in the pipeline planned for 2018. This area of business is crucial not only to the Bank, but also for the industry and mainly in the infrastructure and utilities sector, where the Bank offers 100% Sharia compliant solutions.

SME and Commercial Banking

The SME and Commercial Banking Department is a dedicated business operating under Wholesale Banking. Though the product suites are mostly similar to Corporate Banking, the type of clients differ substantially and the Bank is in the midst of launching customised products, a variant of the existing products, to suit the particular needs of SME and commercial clients. The bank considers the SME sector's contribution to the economy and its impact in providing employment for Omani nationals. Over a short period of time the bank was able to show an increase in SME customers and business volume. The bank plans to offer tailor-made solutions to SMEs beyond the Muscat region to extend our reach into the interior and other regions in the coming years.

Trade Finance

The Bank provides Sharia compliant Trade Finance solutions to meet the needs of a wide range of customers locally and worldwide. As a result of distinguished marketing efforts, we expanded the range of our customers from small enterprises focused primarily on domestic markets to 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, in 2017 Trade Finance achieved 70% growth in the volume of trade business compared to 42% in 2016, while the growth in the operational income from Trade Finance increased by 43% in 2017. On the other hand, LC Murabaha financing transactions have grown by 163% in 2017.

Global Markets

During the year under review, Global Markets had placed emphasis on funding and liquidity to further compliment deposit and asset growth. Foreign Exchange operations were also further enhanced resulting in significant growth. The Sukuk portfolio, despite the challenging market environment, also continued its steady contribution to the Bank's income stream. As the market for such products picks up in terms of traded volume and new issuances, Global Markets aim to be ready to play its next role as a market-maker in the local market.

Investment Banking

Government & Investment banking unit was conceived during the year as an expansion of the existing investment banking business. As the Government continues to drive the nation towards economic diversification and growth, dedicated banking support is seen essential to serve the Government and its various arms for this objective. The Government & Investment Banking unit drives the wholesale deposit base to support the Bank's asset growth, apart from investment mandates. The continuous contribution and support from the unit adds strength and diversity to the wholesale business in delivering funding sources and other revenue streams. Higher clientele coverage and throughput was able to be achieved through the unit that was instrumental in supporting the Bank's asset growth in 2017. The unit shall continue with the commendable progress made by augmenting clientele reach in 2018 through better utilitisation of the 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 Trade inflows and outflows.

In 2017, Bank Nizwa continued building strong connections with local and international banks around the world to provide access to our clients, corporate and institutions, to the international network for trade and payments.

International Banking will continue to develop and maintain long-term relationships for the betterment of the Bank with all reputed local and international banks. We will set up credit lines, put in place smooth processes for transactions and distribute the business amongst our correspondent banks.

Wholesale Banking Support

The Wholesale Banking Support unit ensures excellent client servicing. The team is a customer oriented division that aims to provide personalised service. Further the team activates internet banking for all client segments to bridge the time and distance gap for the clients as we rapidly spread across Oman. The team coordinates with internal domain specialists to ensure smooth transaction processing and a positive customer experience.

Risk Management

Bank Nizwa 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 the 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 the risk-based decision making principles across all levels of the Organisation. The Bank has a disciplined approach in managing risk and reward to assure that the Bank is well positioned to achieve its strategic objectives and to safeguard the interests of all stakeholders.

The Bank's primary responsibility of managing risk lies with the Board of Directors (BOD) which 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, while periodic audits and examinations by the internal auditors ensure that the culture of risk is embedded throughout the business divisions, which in turn is supported by a rigorous set of checks and balances.

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 as part of implementation of International Financial Reporting Standard (IFRS) 9 efforts, developed, validated and implemented internal obligor risk rating model which takes both financial and non-financial parameter of counterparty 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. 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 monitored portfolios and implemented 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 objectives of well controlled balance sheet are met. The Bank made progress in building balance sheet growth in assets. The Bank 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 well within risk appetite and 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 Organisation. During the period in review, the Bank conducted 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 established a dedicated Business Continuity site and has also successfully conducted limited scope drill 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

Since inception in 2013, Bank Nizwa has maintained 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 2014, Bank Nizwa launched 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 the 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 Sharia-compliant financial tools under Islamic banking, insurance and investment across multiple governorates.

As the Sultanate's pioneer Sharia-compliant financial institution, 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 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.

Seeking help drive 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.

Corporate Social Responsibility

Guided by the principles of Sharia 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 Organisations, municipalities and ministries across the different regions in the Sultanate.

Awards & Accolades

Building on its habit of receiving esteemed awards over the years, in 2017 alone, the bank's long list of accolades included winning 'Pioneer of Islamic Banking' during the seventh annual Global Islamic Finance Awards, 'Best Islamic Services and Products in Oman' award at the third annual Arab Banks Awards and Commendations of Excellence, 'Pioneer Islamic Bank in Oman' award by the World Union of Arab Bankers during the 2017 Innovation & Excellence Awards and for the third year in a row, Bank Nizwa has been honored with 'Strongest Islamic Retail Bank in Oman 2017' during the annual Islamic Retail Banking Awards (IRBA).

Sharia Governance Processes

Compliance to Sharia 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 Sharia governance, concepts and general product features which are permitted in Oman for Islamic banks.

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

3. **Sharia Supervisory Board (SSB)**
   SSB members are well-respected Omani and International Sharia scholars who review and provide Sharia resolutions and Fatwas on all products and related processes. This is in addition to overall Sharia supervision to ensure that Bank Nizwa transactions and operations are Sharia compliant at all times. The Bank's SSB which meets on quarterly basis consists of Sheikh Dr. Abdul-Sattar Abu-Ghuddah (Chairman), Sheikh Dr. Mohammad Bin Rashid Al-Gharbi (Member), and Sheikh Ibrahim Bin Nasser Al-Sawwafi (Member). SSB has established a Sharia 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. Sharia Ex-com resolutions are based on previous SSB Sharia guidelines and Fatwas.

4. **Sharia Compliance**
   This function provides Sharia 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 Sharia guidelines and controls. Sharia Review Reports are prepared to document this supervision activity. To support the Sharia compliance activity, Sharia 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 Sharia non-compliant transactions are diverted to charity as per SSB guidelines.

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

6. **External Sharia Audit**
   As required by IBRF, the Bank appoints an independent and qualified external Sharia Auditor to audit the activities of the Bank on an annual basis.

7. **Sharia Training**

To ensure that all members of management and staff have sufficient working knowledge of Islamic banking principles and guidelines, Sharia compliance department staff continues to exert major focus on Sharia training so that these principles are understood and practiced. Sharia 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 2017.

In addition, and as part of the HR strategy, the Bank maintained the "Succession Planning" program by providing the selected group of high-potential employees with the required functional and technical skills. Furthermore, this group will shortly attain a "Leadership Program" with a leading international Organisation.

People Attraction & Recruitment

In 2017, the bank ended the year with 335 employees. Bank Nizwa continued to identify and recruit new 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 2017 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 85% of the Bank employees attended more 100 programs with a total of 750 training opportunities provided that focus on Islamic Banking Training, Risk Management, Wealth Management, Corporate and Retail Banking and International Financial Standards (IFRS). These cutting-edge training programs reflect the latest developments in banking technology; it also helps 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 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 HR professional Service Company to compare its pay position to the market, and make appropriate decision based on the results of the survey to position Bank pay appropriately.

Moreover, the Bank has implemented many HR systems that helped in speeding many HR processes which includes payroll, recruitment, adhoc payments of employees, and employees self-service. It also successfully implemented WPS (Wages Protection System) which was required by Central Bank of Oman and linked with MoM (Ministry of Manpower).

The bank continuously looking into designing and implementing a revised, sustainable process that ensuring that compensation structures for its employees in the Bank are appropriately aligned with regulatory requirements, and drive sustainable performance at all levels of the Bank.

Information Technology

The Information Technology (IT) Department has taken significant strides towards its objective of delivering secure, cost-effective and contemporary technology services to customers. The IT team developed a roadmap to transform and build digital platforms with seamless online banking with digital value propositions & technological architecture solutions that support the mission and vision to Bank's current and future business growth.

With state-of-the-art technology throughout, and a range of interactive customer experience, self-service, convenience, efficiency, and strong data security that radically simplify our business while dramatically improving our customers experience on technological innovation, Information Technology will continue to be at the core of services deliverables.

The bank implemented several projects in line with the Bank's strategic objectives. The projects implemented this year showcased the benefit market-leading technology can bring to both customer and back office processes. Yet another innovative and advanced digital payments channels with implementation of E-Wallet application & Mp-Clear system, by adopting the highly efficient and world-class solution, our customers will enjoy instant payment services, greater efficiency when shopping online and the highest levels of security. By using this technology even non-customers will have the opportunity to experience the comprehensive end-to-end payment services.

From our achievements this year we will work towards digitalization & innovation of streamlining more of the Bank's process and providing our customers with efficient straight-through processing on a larger range of products. New and upgraded technology has improved user experiences for our customers and reduced operational costs, enhancing stakeholder confidence in IT and its contribution to the long-term success of the Bank.

Going Forward

The outlook for 2018 is encouraging; particularly the improving oil prices as a result of OPEC's 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 55 - 57 per barrel in 2018, higher on average than they were last year. As the Omani government is diversifying the economy and following the Tanfeedh program, investment in major transport, manufacturing, hospitality, tourism and infrastructure should underpin economic growth in the coming years. In addition to this, the government's plan to attract further private investments by improving investment climate and enacting new Public Private Partnership (PPP), foreign capital investment and bankruptcy laws will help in the implementation of new initiatives and projects. PPP projects like Khazzan natural gas project and Duqm Refinery are progressing well and it is expected that projects selected within the Tanfeedh framework will be financed in partnership with private sector. This will boost the credit growth and will create more employment opportunities and have a multiplier effect.

While 2018 is likely to remain challenging in terms of competitiveness, increased investment and higher optimism on the back of improving oil prices should continue to support domestic demand. We expect GDP growth to accelerate to 3% in 2018 with expected credit growth to be in the range of 8% - 10%. Nevertheless, there are several headwinds facing the services sectors of the economy, including continued strength of the US dollar as the Federal Reserve is expected to raise interest rates during the year. Travel and tourism, wholesale and retail trade are particularly vulnerable to movements in global FX markets, as emerging market currencies are expected to remain under pressure as US rates rise. This will also create pressure on cost of borrowing from international market.

For the Banking sector, the operating environment is likely to remain challenging in 2018. 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 Organisation is likely to be intense in 2018 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.

With a solid business and the right strategy built around balance sheet management, productivity, cost and capital efficiency to steer the Bank in the right direction, we will continue enhancing capabilities and synergies across our business throughout 2018.

It is encouraging to see the improvement in profitability and the increased balance sheet momentum but there is still a long way to go before returns are at acceptable levels as the Bank just completed 5 years of operations. Transitioning to a higher quality income and more sustainable business takes time but we are evidentially heading in the right direction.

We are investing to enhance controls and improve productivity to make us safer and simpler to do business with. Operational efficiencies are funding the investments in systems and processes that will enable us to engage more confidently and effectively with our clients, through maintaining and developing ever-closer relationships with our clients, further reducing our costs of funds and realizing the benefits of our continuing technology investments.

We will continue to be creative and innovative in the sector, consistently setting ourselves apart from our peers. We will control costs efficiently and always look for ways to build value for our businesses, improve shareholder returns, offer the best products and services to our customers and continue to turn challenges into opportunities in an ever-evolving operating environment. We are fully committed to doing the right things and making our 2018 journey an impactful one.

In closing, I would like to acknowledge that we would not have achieved our milestones in 2017 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 H.E. 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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PR No. HMH/15/2015; HMA/9/2015

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

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

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

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

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

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

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

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

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

Summary of the work performed
Our work mainly included:

1) Discussion with the Bank's management on the Shari'a compliance and governance structure of the Bank;

2) Review of documentation and systems established by the Bank to develop Shari'a compliance and governance framework, in order to develop an understanding of the Shari'a compliance and governance framework and an understanding of the related internal controls. This includes:
    a. Review of minutes of meetings of SSB and Board of Directors;
    b. Review of policies and procedures;
    c. Review of selected job descriptions;
    d. Review of reports prepared by the SSB.

3) Assessing the risks that management's Assertion on the description of controls may be materially misstated;

4) Performing further procedures on the identified risks, as deemed appropriate, using a combination of inspection, observation, confirmation and inquiry;

5) On a sample basis testing of transaction level controls listed in the Management Shari'a compliance and governance report;

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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)

6) Review of pools management;

7) On a sample basis testing of product specific controls listed in the Management Shari'a compliance and governance report;

8) Checking of compliance with employee training procedures of the Bank; and

9) On a sample basis testing of other controls listed in the management Shari'a compliance and governance report.

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

Conclusion

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

Intended users and purpose

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

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

Ernst & Young LLC

31 January 2018
Muscat

ارنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي ١١٢، سلطنة عمان
ERNST & YOUNG LLC
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P.O. Box 1750 - P.C. 112, Sultanate of Oman

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 2016 for the period from 01/01/2017 to 31/12/2017.

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 2017 for the period from 01/01/2017 to 31/12/2017, 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. Calculation and 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, 14nd of Rabie al Athani, 1439H; Corresponding to 31st December 2017.

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK NIZWA SAOG

Report on the financial statements

We have audited the accompanying statement of financial position of Bank Nizwa SAOG (the "Bank") as of 31 December 2017, and the related statements of income, cash flows, changes in owners' equity and sources and uses of charity fund for the year then ended, and a summary of significant accounting policies and other explanatory information. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2017, the results of its operations, cash flows and changes in owners' equity and sources and uses of charity fund for the year then ended in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and the Financial Accounting Standards issued by AAOIFI.

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 the Capital Market Authority of the Sultanate of Oman as set out in note 2.1 of the financial statements.

Ernst & Young LLC

Sanjay

Sanjay Kawatra
Muscat
28 February 2018

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017	2016
		RO	RO
Assets			
Cash and balances with Central Bank of Oman	4	**42,813,968**	16,599,658
Due from banks and financial institutions	5	**3,464,495**	4,919,573
Inter-bank Wakala investments	6	**16,397,550**	41,397,905
Financial assets at fair value through equity	8	**40,721,137**	22,359,510
Financial assets at amortised cost	9	**7,000,000**	7,000,000
Sales receivables and other receivables – net	7	**161,398,328**	100,103,333
Musharaka Financing - net	10	**25,726,666**	799,441
Investment in real estate	11	**14,175,000**	14,175,000
Ijara Muntahia Bittamleek – net	12	**282,109,561**	234,053,765
Wakala Bil Istethmar – net	13	**91,310,805**	62,850,817
Property and equipment – net	15	**2,428,106**	3,105,323
Intangible assets	16	**2,203,452**	2,121,330
Other assets	17	**6,888,903**	6,509,722
Total assets		696,637,971	515,995,377
Liabilities, equity of unrestricted investment accountholders and owners' equity			
Liabilities			
Inter-bank Wakala	18	**19,338,529**	23,232,872
Customers' Wakala	19	**229,764,141**	124,176,399
Customers' accounts	20	**68,310,219**	69,117,814
Other liabilities	21	**20,400,075**	13,432,586
Total liabilities		337,812,964	229,959,671
Equity of unrestricted investment accountholders	22	228,075,630	158,974,261
Owners' equity			
Paid-up capital	23	**150,000,000**	150,000,000
Share premium	24	**2,091,192**	2,091,192
Investment fair value reserve	25	**35,746**	134,314
Legal Reserve	25	**389,622**	10,972
Special reserve		**3,975**	-
Accumulated losses		**(21,771,158)**	(25,175,033)
Total owners' equity		130,749,377	127,061,445
Total liabilities, equity of unrestricted investment accountholders and owners' equity		696,637,971	515,995,377
Net assets per share (RO)	36	0.087	0.085
Contingent liabilities and commitments	26	225,444,814	161,176,664

The financial statements were approved by the Board of Directors on 28 January 2018 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 2017

	Notes	2017	2016
		RO	RO
Sales receivables and other receivables revenue	27	**7,426,898**	4,768,325
Ijara Muntahia Bittamleek and Ijara assets revenue	28	**13,257,819**	9,427,148
Profit from Wakala Bil Istethmar		**5,135,714**	2,632,214
Profit from Musharaka Financing		**533,261**	32,328
Profit from inter-bank Wakala investments	29	**41,905**	34,516
Profit from financial assets at fair value through equity	30	**1,560,420**	1,087,240
Income from jointly financed investments and receivables		**27,956,017**	17,981,771
Return on unrestricted investment accountholders before the Bank's share as Mudarib	31	**(8,823,698)**	(2,395,311)
Bank's share as Mudarib		**4,626,678**	1,199,838
Return on unrestricted investment accountholders		**(4,197,020)**	(1,195,473)
Profit paid on Wakala		**(7,087,984)**	(3,284,229)
Bank's share in income as Mudarib and Rabul Maal		**16,671,013**	13,502,069
Bank's income from its own investments and financing	32	**1,806,460**	1,743,795
Revenue from banking services	33	**3,502,184**	1,921,936
Foreign exchange gain – net		**412,055**	211,239
Total revenues		**22,391,712**	17,379,039
Operating expenses	34	**15,263,487**	14,764,249
General and specific provision	14	**1,926,057**	1,415,471
Depreciation and amortisation	15&16	**1,156,129**	1,089,597
Total expenses		**18,345,673**	17,269,317
Profit before tax		**4,046,039**	109,722
Deferred income tax	35	**(259,539)**	-
Profit for the year		**3,786,500**	109,722
Earnings per share basic and diluted – (RO)	37	**0.003**	-

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017	2016
	RO	RO
Cash flows from operating activities		
Profit before tax	4,046,039	109,722
Adjustments for:		
Depreciation and amortisation	1,156,129	1,089,597
General and specific provision	1,926,057	1,415,471
Other provision	16,844	8,892
Investment risk reserve	120,584	118,818
Profit equalisation reserve	(779,239)	51,354
Cash flows from operating activities before changes in operating assets and liabilities	6,486,414	2,793,854
Changes in operating assets and liabilities:		
Increase in sales receivables and other receivables	(62,014,903)	(24,722,377)
Increase in Ijara Muntahia Bittamleek assets	(48,722,680)	(79,248,664)
Increase in Musharaka financing	(25,179,015)	(807,517)
Increase in Other assets	(655,564)	(1,958,876)
Increase in Customers' accounts	(807,595)	(1,870,845)
Increase in Other liabilities	6,967,489	339,623
Net cash used in operating activities	(123,925,854)	(105,474,802)
Investing activities		
Increase in Investment in financial assets at fair value through equity	(18,492,636)	(3,996,383)
Increase in Wakala Bil Istethmar	(28,747,463)	(25,457,865)
Addition to intangibles assets (net)	(354,872)	(471,375)
Purchase of property and equipment (net)	(215,576)	(49,558)
Disposal of property and equipment	9,414	-
Net cash used in investing activities	(47,801,133)	(29,975,181)
Financing activities		
Increase in unrestricted investment accountholders	69,792,465	84,386,930
Increase in customers' Wakala	105,587,742	80,121,624
Increase in capital deposit with CBO	(153,906)	(92,989)
Decreased in Inter-bank Wakala	(13,475,000)	-
Net cash generated from financing activities	161,751,301	164,415,565
(Decrease)/increase in cash and cash equivalents	(9,975,686)	28,965,582
Cash and cash equivalents at the beginning of the year	52,813,169	23,847,587
Cash and cash equivalents at the end of the year	42,837,483	52,813,169
Cash and balances with CBO	42,813,968	16,599,658
Capital deposit with CBO	(500,001)	(346,095)
Due from banks and financial institutions	3,464,495	4,919,573
Inter-bank Wakala investment	16,397,550	41,397,905
Inter-bank Wakala less than three months	(19,338,529)	(9,757,872)
Cash and cash equivalent for the purpose of cash flow statement	42,837,483	52,813,169

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

STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2017

	Paid-up capital	Share premium	Investment fair value reserve	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**

	Paid-up capital	Share premium	Investment fair value reserve	Reserves	Accumulated losses	Total
	RO	RO	RO	RO	RO	RO
Balance at 1 January 2016	150,000,000	2,091,192	(143,419)	-	(25,273,783)	126,673,990
Investment fair value reserve (net of tax)	-	-	277,733	-	-	277,733
Legal Reserve	-	-	-	10,972	(10,972)	-
Profit for the year	-	-	-	-	109,722	109,722
Balance as at 31 December 2016	150,000,000	2,091,192	134,314	10,972	(25,175,033)	127,061,445

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 2017

	2017	2016
	RO	RO
Sources of charity fund		
Balance as at 1 January	**17,961**	-
Non-Islamic income for the year	**67,466**	35,412
Total source	**85,427**	35,412
Uses of charity fund		
Use of charity fund *	**85,427**	17,451
Undistributed charity fund as at 31 December	-	17,961

* 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 twelve branches in the Sultanate under the banking license issued by the Central Bank of Oman on 19 December 2012.

The principal activities of the Bank are opening current, saving and investment accounts, providing Murabaha finance, Ijara financing and other Sharia compliant forms of financing as well as managing investors' money on the basis of Mudaraba in exchange for a profit share or agency in exchange for a fee, and excess profit as incentive providing commercial banking services and other investment activities.

The Bank's activities are regulated by the Central Bank of Oman ("CBO") and supervised by a Sharia Supervisory Board ("SSB") whose role is defined in Bank's Memorandum and Articles of Association.

At 31 December 2017, the Bank had 336 employees (2016: 330 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.

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.

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 Sharia-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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Investments (continued)

Equity and debt type instruments at fair value through equity

This includes all equity and debt type instruments that are not fair valued through statement of income. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of unrestricted investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in statement of income.

Debt type instruments at amortised cost

Debt type instruments which are managed on a contractual yield basis and are not held for trading and have been designated at fair value through statement of income are classified as debt type 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:

- the right to receive cash flows from the asset has expired;
- 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 (2016: 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

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Provisions (continued)

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.

3.14 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 Sharia 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 Sharia or legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.19 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Revenue recognition (continued)

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.

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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Abut 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.

3.25 Earnings prohibited by Sharia

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

3.26 Zakah

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

3.27 Sharia supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Sharia Supervisory Board of the Bank which meets quarterly and consists of three prominent Sharia 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Revenue recognition (continued)

3.30 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.

3.31 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.

3.32 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 30 Impairment, Credit losses and onerous commitments

In November 2017, the Accounting and Auditing Organisation 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, 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.

In accordance with the requirement of the CBO, the Bank will implement IFRS 9 Financial instruments with effect from 1 January 2018. The further details and impact analysis is stated below:

The Bank will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information in accordance with relevant requirements of IFRS 9. IFRS 9 will replace 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 Bank has assessed the estimated impact of the initial application of IFRS 9 and its initial estimate is expected to positively impact total owner's equity by (20) – (15) % as of 1 January 2018.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- Although parallel runs were carried out in the second half of 2017, the associated controls in place have not been operational for a more extended period;
- The Bank is refining and finalizing its models for ECL calculations; and
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to re-assessment and changes upon instructions of the regulatory authority.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.32 New standards, amendments and interpretations (continued)

(i) Classification and measurement
IFRS 9 contains a new 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.

Based on the Bank's assessment, the new IFRS 9 classification requirements is expected to have a material impact on its investments in equity securities as follows:

At 31 December 2017, the Bank had equity investments classified as available-for-sale with a fair value of RO 262 thousands that are held for long-term strategic purposes. Under IFRS 9, the Bank has designated these investments as measured at FVOCI. Due to this reclassification, an increase of RO 70 K is estimated in the retained earnings along with a corresponding increase in fair value reserve due to reclassification of impairment on equity investments measured at fair value through other comprehensive income to the reserves.

(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 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.

(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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.32 New standards, amendments and interpretations (continued)

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 Abut its financial instruments particularly in the year of the adoption of IFRS 9.

4 Cash and balances with Central Bank of Oman

	2017	2016
	RO	RO
Cash in hand	5,267,318	4,783,329
Balances with Central Bank of Oman	37,046,649	11,470,234
Capital deposit with Central Bank of Oman	500,001	346,095
	42,813,968	16,599,658

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

4.2 During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves is RO 15.978 million (2016: RO 10.532 million).

5 Due from banks and financial institutions

	2017	2016
	RO	RO
Local banks – local currency	610,220	495,362
Foreign banks – foreign currency	2,854,275	4,424,211
	3,464,495	4,919,573

6 Inter-bank Wakala investments

	2017	2016
	RO	RO
Local banks – local currency	15,000,000	34,000,065
Foreign banks – foreign currency – less than one year	1,397,550	7,397,840
	16,397,550	41,397,905

7 Sales receivables and other receivables - net

	Jointly-financed 2017	Self-financed 2017	Total 2017
	RO	RO	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**

	Jointly-financed 2016	Self-financed 2016	Total 2016
	RO	RO	RO
Sales receivables (Murabaha)- retail	90,115,840	1,929,908	92,045,748
Sales receivables (Murabaha)- corporate	23,195,099	-	23,195,099
Istisna receivables - corporate	3,496,460	-	3,496,460
Ijara rent receivables - retail	2,693	-	2,693
Ijara rent receivables - corporate	155,224	-	155,224
Credit card receivables - Ijarah service (Ujrah)	236,762	-	236,762
Gross sales receivables and other receivables	117,202,078	1,929,908	119,131,986
Less:			
Deferred profit	(16,970,169)	(203,797)	(17,173,966)
General provision	(1,772,395)	(22,055)	(1,794,450)
Specific provision	(51,652)	-	(51,652)
Reserved profit	(8,197)	(388)	(8,585)
Net sales receivables and other receivables	98,399,665	1,703,668	100,103,333

The general provision movement against sales receivables and other receivables is as follow:

	2017	2016
	RO	RO
Balance at 1 January	**1,794,450**	1,435,943
General provision during the year (note 14)	**644,963**	358,507
Balance at 31 December	**2,439,413**	1,794,450

7 Sales receivables and other receivables - net (continued)

The specific provision movement against sales receivables and other receivables is as follow:

	2017	2016
	RO	RO
Balance at 1 January	51,652	32,632
Specific provision during the year (note 14)	74,945	19,020
Balance at 31 December	126,597	51,652

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

	2017	2016
	RO	RO
Balance at 1 January	8,585	2,055
Profit reserved during the year	5,151	6,530
Balance at 31 December	13,736	8,585

Non-performing assets of sales receivables and other receivables, amounted to RO 347,389 representing 0.22% of sales receivables and other receivables-net, as of 31 December 2017 (31 December 2016: 0.13%).

8 Financial assets at fair value through equity – Jointly financed

	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

	Cost 2016	Fair value 2016
	RO	RO
International un-listed Sukuk	1,912,663	1,959,573
International listed Sukuk	1,536,915	1,536,379
Regional listed Sukuk	2,165,860	2,105,013
Regional un-listed funds	5,053,564	5,276,734
Regional un-listed shares	334,035	268,385
Local listed Sukuk	7,363,600	7,363,600
Local Un-listed Sukuk	3,750,000	3,750,000
Local listed shares	58,378	99,826
Total	22,175,015	22,359,510

9 Financial assets at amortised cost

	Self-financed 2017	2016
	RO	RO
Local listed Sukuk	7,000,000	7,000,000

10 Musharaka financing - net

	Jointly-financed 2017	2016
	RO	RO
Musharaka financing	25,986,532	807,517
General provision (note 14)	(259,866)	(8,076)
Net investment in Musharaka financing	25,726,666	799,441

The general provision movement against Musharaka as follow:

	Jointly-financed 2017	2016
	RO	RO
Balance at 1 January	8,076	-
Provision during the year (note 14)	251,790	8,076
Balance at 31 December	259,866	8,076

11 Investment in real estate

This represents investment in income generating industrial real estate; where 70% of the beneficial ownership is held by the Bank for a consideration of RO 14.175 million. Subsequently, the property has been leased under a master lease agreement for a period of ten years with a fixed rental amount.

Investment in real estate has been financed from Shareholders' funds and classified as self-finance investment and not included in the Mudaraba pool 'commingled pool'. All profits generated and costs in relation to the investment will be for the account of the Bank only and not subject to income distribution for the unrestricted investment accountholders.

The 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 2017. Further, the Bank has a plan for disinvestment by end of December 2018.

12 Ijara Muntahia Bittamleek - net

	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	(3,415,909)	(105,400)	(3,521,309)
Net book value after general provision	271,674,964	10,434,597	282,109,561

12 Ijara Muntahia Bittamleek - net (continued)

	2016		
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	224,079,806	8,975,680	233,055,486
Accumulated deprecation	(13,453,312)	(522,977)	(13,976,289)
Net book value	210,626,494	8,452,703	219,079,197
Equipment			
Cost	23,687,126	-	23,687,126
Accumulated deprecation	(5,858,133)	-	(5,858,133)
Net book value	17,828,993	-	17,828,993
Total cost	247,766,932	8,975,680	256,742,612
Accumulated deprecation	(19,311,445)	(522,977)	(19,834,422)
Net book value before general provision	228,455,487	8,452,703	236,908,190
General provision	(2,769,898)	(84,527)	(2,854,425)
Net book value after general provision	225,685,589	8,368,176	234,053,765

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

	2017	2016
	RO	RO
Balance at 1 January	**2,854,425**	2,079,135
Provision during the year (note 14)	**666,884**	775,290
Balance at 31 December	**3,521,309**	2,854,425

13 Wakala Bil Istethmar - net

	2017	2016
	RO	RO
Wakala Bil Istethmar	**92,233,136**	63,485,673
General provision (note 14)	**(922,331)**	(634,856)
Wakala Bil Istethmar - net	**91,310,805**	62,850,817

The general provision movement against Wakala Bil Istethmar as follow:

	2017	2016
	RO	RO
Balance at 1 January	**634,856**	380,278
Provision during the year (note 14)	**287,475**	254,578
Balance at 31 December	**922,331**	634,856

14 General provision and specific provision movement

	2017	2016
	RO	RO
Balance at 1 January	5,343,459	3,927,988
General provision made during the year on sales and other receivables (note 7)	644,963	358,507
General provision made during the year on Ijara Muntahia Bittamleek (note 12)	666,884	775,290
General provision made during the year on Wakala Bil Istethmar (note 13)	287,475	254,578
General provision made during the year on Musharaka financing (note 10)	251,790	8,076
Specific provision made during the year on sales and other receivables (note 7)	74,945	19,020
General and specific provision expense	1,926,057	1,415,471
Balance at 31 December	7,269,516	5,343,459

15 Property and equipment - net

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

2016	Furniture & fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Total
	RO	RO	RO	RO	RO	RO
Balance at 1 January	4,246,621	818,816	162,101	1,677,824	223,114	7,128,476
Additions	20,936	24,818	5,489	69,471	-	120,714
Transfers	1,067	27,353	-	110,746	(210,322)	(71,156)
Balance at 31 December	4,268,624	870,987	167,590	1,858,041	12,792	7,178,034
Accumulated Depreciation at 1 January	(2,055,275)	(236,358)	(43,448)	(854,895)	-	(3,189,976)
Depreciation expense	(382,933)	(126,268)	(24,913)	(348,621)	-	(882,735)
Accumulated Depreciation at 31 December	(2,438,208)	(362,626)	(68,361)	(1,203,516)	-	(4,072,711)
Carrying value at 31 December	1,830,416	508,361	99,229	654,525	12,792	3,105,323

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

16 Intangible assets

	Software	Capital work in progress	Total
2017	**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**

	Software	Capital work in progress	Total
2016	RO	RO	RO
Carrying value at 1 January	1,649,914	206,903	1,856,817
Additions	158,145	437,264	595,409
Transfers	338,942	(350,048)	(11,106)
Written off	(112,928)	-	(112,928)
Amortisation	(206,862)	-	(206,862)
Carrying value at 31 December	1,827,211	294,119	2,121,330

17 Other assets

	2017	2016
	RO	RO
Deferred tax asset (note 35.3)	**2,677,703**	2,937,242
Profit receivable	**3,560,366**	2,243,460
Advance payment	**99,824**	862,280
Prepaid expense	**386,614**	279,003
Refundable deposits	**83,388**	83,388
Inventory	**49,335**	42,502
Others	**31,673**	61,847
	6,888,903	6,509,722

18 Inter-bank Wakala

Wakala	2017	2016
	RO	RO
Local banks – foreign currency	**11,550,000**	8,937,840
Foreign banks – foreign currency maturing > 1 year	**-**	13,475,000
Foreign banks – foreign currency maturing < 1 year	**7,788,529**	820,032
	19,338,529	23,232,872

19 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.

20 Customers' accounts

	2017	2016
	RO	RO
Current accounts	67,702,458	68,940,499
Margin accounts	607,761	177,315
	68,310,219	69,117,814

21 Other liabilities

	2017	2016
	RO	RO
Payment orders	3,925,700	3,569,662
Creditors and accruals	11,755,939	7,976,235
Profit payable	4,532,723	1,669,044
Others	185,713	217,645
	20,400,075	13,432,586

22 Equity of unrestricted investment accountholders

	2017	2016
	RO	RO
Unrestricted investment accountholders	227,777,182	157,984,717
Investment fair value reserve	17,740	50,181
Profit equalisation reserve	-	779,239
Investment risk reserve	280,708	160,124
	228,075,630	158,974,261

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.

22.1 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 2017 and 2016 as follows:

	2017	2016
	Percentage	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.

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

The percentages of the profit allocation between owners' equity and unrestricted investment accountholders are as follows:

Account type	Participation factor		2017 average rate of return	2016 average rate of return
2017	RO	USD	RO	RO
Saving account	20% - 40%	15%	1.40%	0.74%
One month tenure	46% - 50%	23%-25%	1.35%	1.39%
Three months tenure	51% - 55%	25.5% - 27.5%	1.53%	1.55%
Six months tenure	61% - 68%	30.5% - 34%	1.89%	1.90%
Nine months tenure	66% - 73%	33% - 36.5%	2.05%	2.07%
One year tenure	71% - 78%	35.5% - 39%	2.42%	2.45%
One year and a half tenure	78.5% - 85%	-	3.21%	3.28%
Two years tenure	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.

a. Equity of unrestricted investment accountholders details

Account type	2017	2016
	RO	RO
Saving account	137,475,222	82,915,579
Investment accounts:		
One month	15,000	93,000
Three months	649,418	783,007
Six months	2,178,665	1,453,674
Nine months	181,100	92,000
One year	18,277,655	15,263,134
One year and a half	2,092,223	1,122,223
Two years	66,546,681	56,262,100
Three years	37,486	-
Four years	13,039	-
Five years	59,543	-
More than five years	251,150	-
	227,777,182	157,984,717

23 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 2017, no shareholders' of the Bank owned 10% or more of the Bank's paid up capital.

24 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.

25 Reserves

25.1 Investment fair value reserve

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

25.2 Legal reserve

	2017	2016
	RO	RO
1 January	10,972	-
Appropriation for the year	378,650	10,972
31 December	389,622	10,972

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.

25.3 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. 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.

26 Contingent liabilities and commitments

a) Contingent liabilities

	2017	2016
	RO	RO
Letters of guarantee	53,881,017	33,556,090
Letters of credit	20,071,723	9,696,018
Acceptances	7,328,535	12,513,402
Bills for collection	104,113	-
Total contingent liabilities (a)	81,385,388	55,765,510

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

	2017	2016
	RO	RO
Construction	31,494,686	17,168,304
Manufacturing	17,219,733	17,076,156
Service	3,830,941	3,606,942
Others	28,840,028	17,914,108
Total contingent liabilities (a)	81,385,388	55,765,510

26 Contingent liabilities and commitments (continued)

b) Commitments

	2017	2016
	RO	RO
Unutilised limits	**144,059,426**	105,411,154
Total commitments (b)	**144,059,426**	105,411,154
Total contingent liabilities and commitments (a+b)	**225,444,814**	161,176,664

27 Sales receivables and other receivables revenue

	Jointly-financed	
	2017	2016
	RO	RO
Retail	**4,549,407**	3,998,019
Corporate	**2,877,491**	770,306
	7,426,898	4,768,325

28 Ijara Muntahia Bittamleek revenue and Ijara assets revenue

	Jointly-financed	
	2017	2016
	RO	RO
Ijara Muntahia Bittamleek – real estate	**29,625,508**	27,933,429
Ijara Muntahia Bittamleek – equipment	**5,580,627**	4,660,358
Depreciation on Ijara Muntahia Bittamleek assets	**(21,948,316)**	(23,166,639)
	13,257,819	9,427,148

29 Profit from inter-bank Wakala investments

	Jointly-financed	
	2017	2016
	RO	RO
Inter-bank Wakala local	**29,115**	18,466
Inter-bank Wakala foreign	**12,790**	16,050
	41,905	34,516

30 Profit from financial assets at fair value through equity

	Jointly-financed	
	2017	2016
	RO	RO
Profit on sukuk	**1,214,786**	116,464
Profit on funds investment	**320,672**	-
Gains on sale of sukuk	**95,340**	751,011
Gain on sale of shares	**1,383**	219,765
Impairment loss provision on FVTE	**(71,761)**	-
	1,560,420	1,087,240

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

	2017	2016
	RO	RO
Saving accounts	3,915,592	1,384,870
Investment accounts	5,566,761	840,269
Investment risk reserve	120,584	118,818
Profit equalisation reserve	(779,239)	51,354
	8,823,698	2,395,311

32 Bank's income from its own investments and financing

	2017	2016
	RO	RO
Rental income from investment in real estate	1,134,000	1,134,000
Profit from financial assets at amortised cost	355,832	354,861
Sales receivables revenue	59,247	51,774
Ijara Muntahia Bittamleek revenue - net of depreciation	253,670	203,160
Gain from selling fixed assets	3,711	-
	1,806,460	1,743,795

33 Revenue from banking services

	2017	2016
	RO	RO
Commissions income	763,231	568,594
Processing fees	1,912,849	767,907
Service charges	826,104	585,435
	3,502,184	1,921,936

34 Operating expenses

	2017	2016
	RO	RO
Staff cost	10,291,130	9,576,856
Rent expense	889,129	873,658
Advertisement	601,058	656,167
Operational leasing	132,522	201,665
Maintenance expense	749,920	756,925
Security and cleaning	258,712	265,679
Professional and consulting charges	167,366	130,149
Boards expenses	123,673	126,948
Government fee	204,865	205,683
Printing and stationery	79,382	140,364
Telephone, electricity and water	469,949	481,935
Traveling expense	50,070	41,999
Subscription expense	124,529	111,465
Cards expense	724,051	687,878
Others	397,131	506,877
	15,263,487	14,764,249

35 Income tax

35.1 Recognised in the statement of income

	2017	2016
	RO	RO
Deferred income tax	259,539	-

The Bank is subject to income tax at the rate of 15% of taxable profits (2016 - 12%). The tax losses are available to carry forward for a period of 5 years and will be utilised against the future taxable profits.

35.2 Reconciliation

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

	31 December 2017	31 December 2016
	RO	RO
Profit (loss) as per financial statements	4,046,039	109,722
Tax asset at the rate mentioned above	606,906	13,167
Non-deductible expenses and other permanent differences	(8,428)	20,420
Deferred tax Recognized from previous years	(338,939)	(33,587)
Total	259,539	-

35.3 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 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

	As at 1 Jan 2016	Recognized in income	Unrecognized in income	As at 31 Dec 2016
	RO	RO	RO	RO
Property, plant and equipment	(263,285)	-	(107,218)	(370,503)
General provision	240,545	-	(19,242)	221,303
Other provision	5,990	-	1,067	7,057
Losses carried forward	3,326,518	-	91,806	3,418,324
Net deferred tax asset	3,309,768	-	(33,587)	3,276,181

Deferred tax asset and liabilities recognized as at the reporting date are in the amount of RO 2,677,703.

36 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

	2017	2016
	RO	RO
Net assets (RO)	130,749,377	127,061,445
Number of shares outstanding	1,500,000,000	1,500,000,000
Net assets per share	0.087	0.085

37 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:

	2017	2016
	RO	RO
Profit for the year (RO)	3,786,500	109,722
Weighted average number of shares outstanding during the year	1,500,000,000	1,500,000,000
Earnings per share- basic and diluted (RO)	0.003	0.000

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.

38 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 Abut 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.

38 Segment reporting (continued)

Segment information is as follows:

	Retail banking	Corporate banking	Treasury & investment	Others	Total
31 December 2017	RO	RO	RO	RO	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
General and specific provision	605,162	1,155,895	165,000	-	1,926,057
Total expense	11,615,929	3,943,479	2,786,265	-	18,345,673
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	263,617,734	124,572,150	11,520,461	696,637,971
Total liabilities and equity of unrestricted investment accountholders	201,643,602	324,506,389	19,338,529	20,400,075	565,888,595

38 Segment reporting (continued)

	Retail banking	Corporate banking	Treasury & investment	Others	Total
31 December 2016	RO	RO	RO	RO	RO
Total revenue (joint)	10,494,026	6,365,990	1,121,755	-	17,981,771
Return on unrestricted investment accountholders	(822,599)	(372,874)	-	-	(1,195,473)
Profit paid on Wakala	(357,227)	(2,371,391)	(555,611)	-	(3,284,229)
Bank's share in income from investment as a Mudarib and Rabul Maal	9,314,200	3,621,725	566,144	-	13,502,069
Bank's income from its own investments and financing	254,934	-	1,488,861	-	1,743,795
Other operating income	710,252	1,191,598	231,325	-	2,133,175
Total revenue	10,279,386	4,813,323	2,286,330	-	17,379,039
Staff cost	5,796,241	2,135,286	1,645,329	-	9,576,856
Other operating expense	3,280,805	1,041,525	865,063	-	5,187,393
Depreciation and amortisation	697,853	168,717	223,027	-	1,089,597
General provision	959,943	455,528	-	-	1,415,471
Total expense	10,734,842	3,801,056	2,733,419	-	17,2 69,317
Net (loss)/profit before tax	(455,456)	1,012,267	(447,089)	-	109,722
Income tax	-	-	-	-	-
Net (loss)/profit after tax	(455,456)	1,012,267	(447,089)	-	109,722
Total assets	247,971,712	149,835,644	106,451,646	11,736,375	515,995,377
Total liabilities and equity of unrestricted investment accountholders	318,419,114	33,849,361	23,232,872	13,432,585	388,933,932

39 Financial instruments

(a) Fair values of financial instruments

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying value and fair value estimates. As at the reporting date the fair values of the Bank's financial instruments are not significantly different from their carrying values.

(b) Fair values of financial instruments valuation hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. This fair value disclosure is divided into three levels as follows:

Level 1 portfolio

Level 1 assets and liabilities are typically exchange -traded positions and some government bonds traded in active markets. These positions are valued using unadjusted quoted prices in active markets.

Level 2 portfolio

Fair value is determined using valuation techniques based on valuation models with directly or indirectly market observable inputs. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as level 2.

Level 3 portfolio

Level 3 assets are valued using techniques similar to those outlined for level 2, except that if the instrument has one or more inputs that are unobservable and significant to the fair value measurement of the instrument in its entirety, it will be classified as level 3.

If the inputs used to measure the fair value of an asset or a liability might be 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	**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**

	Level 1	Level 2	Level 3	Total
	RO	RO	RO	RO
Financial assets at fair value through equity Investment in real estate	16,814,391	5,545,119	-	22,359,510
Investment in real estate	-	-	14,175,000	14,175,000
Total financial assets at 31 December 2016	16,814,391	5,545,119	14,175,000	36,534,510

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40 Related party transactions

In the ordinary course of business, the Bank conducts transactions with certain of its directors' and/or shareholders' and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

No specific provisions has been established in respect of the financing given to related parties

	Principal shareholders	Sharia'a Board	Senior management	Total
31 December 2017	**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	**9,303,444**	**10**	**237**	**9,303,691**

	Principal shareholders	Sharia'a Board	Senior management	Total
31 December 2016	RO	RO	RO	RO
Sales receivables & other receivables	419,453	19,361	120,133	558,947
Ijara Muntahia Bittamleek	1,837,778	83,835	610,529	2,532,142
Customers' accounts	612,990	1,799	200,508	815,297
Unrestricted investment accountholders	3,354,000	13	-	3,354,013

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

	Principal shareholders	Sharia'a Board	Senior management	Total
31 December 2017	**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**

	Principal shareholders	Sharia'a Board	Senior management	Total
31 December 2016	RO	RO	RO	RO
Profit account	114,517	3,061	18,832	136,410
Commission income	209	-	1	210
Operating expenses				
Staff expense	-	-	1,112,459	1,112,459
Other expenses	72,350	54,598	-	126,948

41 Financial risk management

The Bank's activities expose it to a variety of financial risks. The management's aim is to achieve an appropriate balance between risk and return, and minimize potential adverse effects on its financial performance. The Bank's risk management program is designed to set out the overarching philosophy, principles, requirements and responsibilities for a sound approach to risk oversight, management and on-going internal control assurance required within the Bank. All risk management policies and systems are regularly reviewed to reflect changes in markets, products and emerging best practice. Risk management is carried out by the Bank under policies approved by the Board of Directors. Risk policies explain the Bank's underlying approach to risk management, roles and responsibilities of the key players in risk management process as well as outlines tools and techniques for management of risks. The principal risks associated with the banking business are: credit risk, market risk, liquidity risk and operational risk.

The high-level risk framework mainly addresses the following:

- The oversight of board and senior management
- Overall policy approach of the Bank to establish risk appetite/tolerance, procedures and limits
- Identification, measurement, mitigation, controlling and reporting of risks
- Risk MIS at the Bank wide level

The risk management processes have been effective throughout the year and members of Senior Management and Board of Directors have remained active and involved in maintaining risk profile of the Bank at acceptable level and adequate capital is held as per the regulatory requirements.

Credit risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Bank. Credit risk management, administration and control are carried out by risk management teams, which report to the Board Governance, Risk and Compliance Committee. The Bank has well defined credit structures under which credit committees, comprising of senior officers with requisite banking background, critically scrutinize and sanction financing up to the delegated authority. The Bank's exposure to credit is managed on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, counterparty limits, group exposure limits, and industry limits are monitored in light of changing counterparty and market conditions. All credit decisions are taken as per the Bank's credit risk policies and CBO regulations and are monitored accordingly. For purpose of capital charge, the Bank uses Basel II Standardardized approach.

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.

41 Financial risk management (continued)
Credit risk (continued)

Ijara Muntahia Bittamleek
This is a lease whereby the legal tittle of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara Instalments are settled.

Wakala Investments
This is an investment in which the Bank, in its capacity as the "Muwakkil" (Principal) appoints the customer as "Wakeel" (Agent) to manage the invested fund amount in Sharia-compliant activities that may be entered into, as agreed, by the Wakeel on behalf of the Muwakkil. The investment amount is not guaranteed while the profit rate is anticipated and cannot be fixed. Therefore, 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. 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		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Customer account, 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	2,707,746	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

41 Financial risk management (continued)

Credit risk (continued)

(a) Geographical concentrations (continued)

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2016	RO	RO	RO	RO	RO	RO
Sultanate of Oman	34,495,427	418,183,783	18,213,426	351,278,930	8,937,840	156,742,432
Other GCC countries	8,895,030	2,149,583	7,647,548	-	13,745,000	560,221
Europe and North America	2,872,324	-	1,342,854	-	-	2,786,916
Africa and Asia	54,697	-	2,155,682	-	550,032	1,087,095
Total	46,317,478	420,333,366	29,359,510	351,278,930	23,232,872	161,176,664

(b) Customer concentrations

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2017	**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**

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2016	RO	RO	RO	RO	RO	RO
Personal	-	265,334,557	-	157,703,285	-	31,436
Corporate	46,317,478	154,998,809	19,380,253	33,849,361	23,232,872	142,145,228
Government	-	-	9,979,257	159,726,284	-	19,000,000
Total	46,317,478	420,333,366	29,359,510	351,278,930	23,232,872	161,176,664

41 Financial risk management (continued)
Credit risk (continued)

(c) Economic sector concentrations

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Customer account, 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

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2016	RO	RO	RO	RO	RO	RO
Personal	-	265,334,557	-	163,525,970	-	31,436
Construction	-	33,727,662	-	2,440,460	-	34,445,522
Manufacturing	-	1,499,956	-	994,558	-	31,925,044
Financial services	46,317,478	-	707,515	1,250,000	23,232,872	-
Government	-	-	9,979,257	152,706,569	-	19,000,000
Other services	-	10,444,266	-	2,182,241	-	8,889,103
Others	-	109,326,925	18,672,738	28,179,132	-	66,885,559
	46,317,478	420,333,366	29,359,510	351,278,930	23,232,872	161,176,664

(d) Gross credit exposure

	2017	2016
	RO	RO
Gross financing	593,203,675	420,333,366
Due from banks and interbank Wakala	19,862,045	46,317,478
Investments in Sukuk and securities	47,721,137	29,359,510
Total	660,786,857	496,010,354

41 **Financial risk management** (continued)
Credit risk (continued)

(e) Geographical distribution of exposures:

	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**	**17,373,380**	**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**

	Sultanate of Oman	Other Countries	Total
31 December 2016	RO	RO	RO
Gross Sales receivables and other receivables	119,131,986	-	119,131,986
Gross Ijarah Muntahia Bittamleek	234,758,607	2,149,583	236,908,190
Gross Musharaka financing	807,517	-	807,517
Gross Wakala Bil Istethmar	63,485,673	-	63,485,673
Investments in Sukuk and securities	18,213,426	11,146,084	29,359,510
Due from banks and interbank Wakala	34,495,427	11,822,051	46,317,478
Total	470,892,636	25,117,718	496,010,354

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

	Due from banks and interbank Wakala	Gross Sales receivables and other receivables	Gross 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**
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**

41 **Financial risk management** (continued)
Credit risk (continued)

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

	Due from banks and interbank Wakala	Gross Sales receivables and other receivables	Gross Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
2016	RO	RO	RO	RO	RO	RO	RO	RO
Construction	-	1,924,597	7,299,555	-	24,503,510	-	33,727,662	34,445,522
Electricity, gas and water	-	1,010,905	133,182	-	31,873,134	-	33,017,221	33,582,778
Financial institutions	46,317,478	-	-	-	-	707,515	47,024,993	-
Services	-	295,191	135,205	-	3,290,310	-	3,720,706	8,889,103
Personal financing	-	92,047,398	173,287,159	-	-	-	265,334,557	-
Government	-	-	-	-	-	9,979,257	9,979,257	19,000,000
Non-resident financing	-	-	2,149,583	-	-	-	2,149,583	-
Others	-	23,853,895	53,903,506	807,517	3,818,719	18,672,738	101,056,375	65,259,261
Total	46,317,478	119,131,986	236,908,190	807,517	63,485,673	29,359,510	496,010,354	161,176,664

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

	Due from banks and interbank Wakala	Gross Sales receivables and other receivables	Gross 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**

41 Financial risk management (continued)
Credit risk (continued)

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

2016	Due from banks and interbank Wakala RO	Gross Sales receivables and other receivables RO	Gross 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	46,317,478	2,834,249	1,137,867	3,863	17,826,600	5,647,945	73,768,002	35,404,390
1 to 3 months	-	6,577,418	2,487,371	8,444	12,027,200	-	21,100,433	15,896,552
3 to 6 months	-	8,019,245	3,533,100	11,994	3,911,196	-	15,475,535	8,799,642
6 to 9 months	-	6,615,903	3,788,955	12,863	457,700	-	10,875,421	11,425,306
9 to 12 months	-	7,125,904	4,307,462	14,623	3,634,636	-	15,082,625	52,695,803
1 to 3 years	-	44,076,604	37,348,713	126,790	7,081,257	1,604,327	90,237,691	23,161,712
3 to 5 years	-	23,415,830	32,476,438	110,250	3,966,878	10,993,238	70,962,634	5,943,335
Over 5 years	-	20,466,833	151,828,284	518,690	14,580,206	11,114,000	198,508,013	7,849,924
	46,317,478	119,131,986	236,980,190	807,517	63,485,673	29,359,510	496,010,354	161,176,664

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

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**

31 December 2016	Performing financing RO	Non-performing financing RO	Specific provisions held RO	General provisions held RO
Personal financing	265,306,097	28,460	25,512	3,289,644
Non-resident corporate financing	2,149,583	-		21,496
Resident corporate financing	152,744,665	104,561	26,140	1,980,667
	420,200,345	133,021	51,652	5,291,807

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

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**

41 **Financial risk management** (continued)
Credit risk (continued)

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

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
31 December 2016	RO	RO	RO	RO
Personal financing	418,050,762	133,021	51,652	5,270,311
Non-resident corporate financing	2,149,583	-	-	21,496
Resident corporate financing	420,200,345	133,021	51,652	5,291,807

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

	2017	2016
	RO	RO
Due from banks and interbank Wakala investments	**19,862,045**	46,317,478
Investment in Sukuk and securities	**47,721,137**	29,359,510
Gross Financing	**593,203,675**	420,333,366
	660,786,857	496,010,354
Off-balance sheet items		
Financial guarantee	**53,881,017**	33,556,090
Financial letter of credits	**20,071,723**	9,696,018
Acceptances	**7,328,535**	12,513,402
Bills for collection	**104,113**	-
Commitments	**144,059,426**	105,411,154
	225,444,814	161,176,664

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

41 Financial risk management (continued)
Liquidity risk (continued)

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.

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 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	217,068,509	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)	-	-

41 **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
31 December 2016	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	16,253,563	-	-	-	346,095	16,599,658
Inter-bank Wakala and Due from banks	46,317,478	-	-	-	-	46,317,478
Financing to customers - net	21,348,259	34,396,498	23,627,617	137,928,664	180,506,318	397,807,356
Financial assets at fair value through equity	5,644,945	-	-	5,600,565	11,114,000	22,359,510
Financial assets at amortized cost	-	-	-	7,000,000	-	7,000,000
Investment in real estate	-	14,175,000	-	-	-	14,175,000
Intangible asset	-	-	-	-	2,121,330	2,121,330
Property and equipment	-	-	-	-	3,105,323	3,105,323
Other assets	169,510	413,030	193,152	3,731,340	2,002,690	6,509,722
Total assets	89,733,755	48,984,528	23,820,769	154,260,569	199,195,756	515,995,377
Interbank Wakala	8,987,872	385,000	385,000	13,475,000	-	23,232,872
Customer accounts and unrestricted accountholders	35,471,918	57,510,655	78,958,082	133,763,516	45,624,940	351,329,111
Other liabilities	1,788,958	3,569,662	7,856,320	217,646	-	13,432,586
Investment risk and profit equalization reserve	-	-	-	-	939,363	939,363
Owners' equity	-	-	-	-	127,061,445	127,061,445
Total liabilities, equity of unrestricted investment accountholders and owners' equity	46,248,748	61,465,317	87,199,402	147,456,162	173,625,748	515,995,377
Net gap	43,485,007	(12,480,789)	(63,378,633)	6,804,407	25,570,008	-
Cumulative net gap	43,485,007	31,004,218	(32,374,415)	(25,570,008)	-	-

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.

41 **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

	2017	2016
	RO	RO
Net assets denominated in US Dollars	**4,563,547**	(37,005,524)
Net assets denominated in other foreign currencies	**(2,295,757)**	1,420,807

(b) Rate of Return Risk

Rate of Return Risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through advances and deposits portfolio.

The profit rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability 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

	2017	2016
	RO	RO
+200 bps	**3,281,878**	1,634,000
+100 bps	**1,640,939**	817,000
-200 bps	**(3,281,878)**	(1,634,000)
-100 bps	**(1,640,939)**	(817,000)

41 **Financial risk management** (continued)
Market risk (continued)
Rate of Return Risk (continued)

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by risk policy guidelines and reduces risk by matching the repricing of assets and liabilities

	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	Due after 5 years	Non-profit bearing	Total
31 December 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	525,869,282
Other liabilities	-	-	-	-	-	20,400,075	20,400,075
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	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	-	-

41 Financial risk management (continued)
Market risk (continued)
Rate of Return Risk (continued)
Profit rate sensitivity gap (continued)

31 December 2016	Due on demand and up to 30 days RO	More than 1month to 6 months RO	More than 6 months to 12 months RO	More than 1 year to 5 years RO	Due after 5 years RO	Non-profit bearing RO	Total RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	16,599,658	16,599,658
Inter-bank Wakala and Due from banks	42,680,780	-	-	-	-	3,636,698	46,317,478
Financing to customers - net	66,390,033	53,762,599	45,642,039	148,119,952	83,892,733	-	397,807,356
Financial assets at fair value through equity	-	-	-	5,600,565	11,114,000	5,644,945	22,359,510
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	-	2,121,330	2,121,330
Property and equipment	-	-	-	-	-	3,105,323	3,105,323
Other assets	111,759	191,777	66,174	605,085	1,268,664	4,266,263	6,509,722
Total assets	109,182,572	53,954,376	45,708,213	161,325,602	96,275,397	49,549,217	515,995,377
Interbank Wakala	8,937,840	385,000	385,000	13,475,000	-	50,032	23,232,872
Customer accounts & unrestricted accountholders	9,956,503	44,931,480	55,801,145	143,961,509	27,510,481	69,167,993	351,329,111
Other liabilities	-	-	-	-	-	13,432,586	13,432,586
Investment risk & profit equalization reserve	-	-	-	-	939,363	-	939,363
Shareholders' equity	-	-	-	-	-	127,061,445	127,061,445
Total liabilities and shareholders' equity	18,894,343	45,316,480	56,186,145	157,436,509	28,449,844	209,712,056	515,995,377
On-balance sheet gap	90,288,229	8,637,896	(10,477,932)	3,889,093	67,825,553	(160,162,839)	-
Cumulative Profit sensitivity gap	90,288,229	98,926,125	88,448,193	92,337,286	160,162,839	-	-

41 **Financial risk management** (continued)

Market risk (continued)

Rate of Return Risk (continued)

(c) Equity risk

Bank is exposed to the volatility in the prices of the securities (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.

41 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 2017 and 2016 as follows:

Capital structure	2017	2016
	RO	RO
TIER I CAPITAL		
Paid up capital	**150,000,000**	150,000,000
Share premium	**2,091,192**	2,091,192
Legal reserve	**389,622**	10,972
Accumulated losses	**(21,771,158)**	(25,175,033)
Fair value gains or losses on financial assets at fair value through equity	**(123,463)**	(169,430)
Less: Intangible assets	**(2,203,452)**	(2,121,330)
Deferred tax asset	**(2,677,703)**	(2,937,242)
Total Tier I capital	**125,705,038**	121,699,129
TIER II CAPITAL		
Fair value gains on financial assets at fair value through equity	**79,627**	159,264
General provision	**7,142,919**	5,291,807
Total Tier II capital	**7,222,546**	5,451,071
Total eligible capital	**132,927,584**	127,150,200
Risk weighted assets		
Credit risk	**716,089,507**	482,608,895
Market risk	**22,391,617**	32,047,791
Operational risk	**32,302,324**	23,006,077
Total	**770,783,448**	537,662,763
Tier I capital	**125,705,038**	121,699,129
Tier II capital	**7,222,546**	5,451,071
Total regulatory capital	**132,927,584**	127,150,200
Tier I capital ratio	**16.31%**	22.63%
Total capital ratio	**17.25%**	23.65%
Common Equity Tier 1 (CET1)	**128,705,038**	121,699,129
Common Equity Tier 1 ratio	**16.31%**	22.63%

41 Financial risk management (continued)

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 requires 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.

			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

41 Financial risk management (continued)

Liquidity coverage ratio (LCR)

			2016
Stock of High Quality Liquid Assets (HQLA)	Factor	Book Balance	Adjusted amount
Level 1 assets		RO	RO
Coins and bank notes	100%	4,783,328	4,783,328
Total Level 1 assets		4,783,328	4,783,328
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	7,363,600	6,259,060
Total Level 2A		7,363,600	6,259,060
Level 2B			
Qualifying corporate debt securities, rated between A+ and BBB-	50%	10,641,808	5,320,904
Qualifying common equity shares	50%	99,826	49,913
Total Level 2B (maximum 15% of HQLA)		10,741,634	5,370,817
Total level 2 assets (Maximum 40% of HQLA)		18,105,234	11,629,877
Total Stock of liquid assets		22,888,562	7,972,213
Cash outflows			
Less stable retail deposits	10%	132,156,832	13,215,683
Less stable deposits	10%	10,859,480	1,085,948
Non-financial corporates, sovereigns, central banks and PSE	40%	4,243,630	1,697,452
Currently undrawn portion of credit lines			
Other Financial institutions-liquidity	100%	7,397,840	7,397,840
Other Legal entity customers, credit and liquidity facilities	100%	497,000	497,000
Other contingent funding liabilities (Letters of credit, guarantee)	5%	6,938,798	346,940
Total cash outflows		164,332,286	24,240,863
Cash inflows			
All other assets	100%	11,736,375	11,736,375
Amounts to be received from retail counterparties	50%	2,448,283	1,224,142
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	19,350,433	9,675,217
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	11,470,234	11,470,234
Operational deposits held at other financial institutions	0%	4,919,573	-
Total cash inflows		49,924,898	34,105,967
75% of outflows			18,180,647
Inflows restricted to 75% of outflows			18,180,647
Net cash outflows			6,060,216
LCR (%)			131.55

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.

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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 2017. 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 2017 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
28 February 2018

ارنست ويونغ ش م م
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BASEL II PILLAR 3 ANNUAL DISCLOSURES 2017

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 Organisation.
- **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 Abut 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 2016 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 0.57% of Oman Takaful and does not have any control in the Company and accordingly it is not consolidated in any form.

3. Capital Structure

3.1 Qualitative Disclosure

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

- The Bank has no other capital instruments or equity related instruments that are considered as part of its regulatory capital.
- Unrestricted Investment Accounts are defined under section Unrestricted Investment Accounts. These are not considered as part of the equity and will only affect Capital Adequacy Ratio calculation to reduce Risk Weighted Assets. However, the Bank is following conservative approach by not reducing Risk Weighted Assets.
- There is no minority interest, surplus capital from Takaful companies and 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:

	2017	2016
	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	**389,622**	10,972
Accumulated Losses	**(21,771,158)**	(25,175,033)
Net Fair value losses on financial assets at fair value through equity	**(123,463)**	(169,430)
Less: Intangible Assets, Including Losses, Cumulative Unrealized Losses Recognized Directly In Equity	**(2,203,452)**	(2,121,330)
Less: Deferred Tax Assets	**(2,677,703)**	(2,937,242)
Total Tier I capital	**125,705,038**	121,699,129
(b) Tier II Capital		
General provision	**7,142,919**	5,291,807
Fair value gains on financial assets at fair value through equity	**79,627**	159,264
Total Tier II capital	**7,222,546**	5,451,071
Total eligible capital	**132,927,584**	127,150,203

(c) Unrestricted Investment Account and Related Reserves	2017	2016
	RO	RO
Amount of unrestricted Investment Accountholder (IAH) Funds	**227,777,182**	157,984,717
Investment fair value reserve	**17,740**	50,181
Profit Equalization Reserve (PER)	**-**	779,239
Investment Risk Reserve (IRR)	**280,708**	160,124

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 31 December 2017 is 17.25% (Dec 31, 2016:23.65%)

(a) Capital Requirements	2017		2016	
	RO		RO	
	Risk Weighted Assets (RWA)	**Capital Requirement**	Risk Weighted Assets (RWA)	Capital Requirement
Credit Risk	**716,089,507**	**94,881,860**	482,608,895	63,945,679
Market Risk	**22,391,617**	**2,966,889**	32,047,791	4,246,332
Operational Risk	**32,302,324**	**4,280,058**	23,006,077	3,048,305
Total	**770,783,448**	**102,128,807**	537,662,763	71,240,316

(b) Capital Requirements	2017	2016
Details	**RO**	RO
Tier I Capital (after supervisory deductions)	**125,705,038**	121,699,129
Tier II capital (after supervisory deductions & up to eligible limits)	**7,222,546**	5,451,071
Risk Weighted Assets – Banking Book	**738,481,124**	514,656,686
Risk Weighted Assets – Operational Risk	**32,302,324**	23,006,077
Total Risk Weighted Assets – Banking Book + Operational Risk	**770,783,448**	537,662,763
Minimum required capital to support RWAs of banking book & operational risk	**102,128,807**	71,240,316
i) Minimum required Tier I Capital for banking book & operational risk	**94,906,261**	65,789,242
ii) Tier II Capital required for banking book & operational risk	**7,222,546**	5,451,071
Tier I capital available for supporting Trading Book	**30,798,777**	55,909,887
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	**132,927,584**	127,150,200
Total Risk Weighted Assets – Whole bank	**770,783,448**	537,662,763
Common Equity Tier 1 (as a percentage of risk weighted assets)	**16.31%**	22.63%
Tier 1 (as a percentage of risk weighted assets)	**16.31%**	22.63%
Total capital (as a percentage of risk weighted assets)	**17.25%**	23.65%

(c) Capital Adequacy Ratio	2017	2016
	RO	RO
Total Risk Weighted Assets (RWA)	**770,783,448**	537,662,763
Total Eligible Capital	**132,927,584**	127,150,200
Capital Adequacy Ratio	**17.25%**	23.65%

(d) Ratio of Total and Tier 1 Capital to Total RWA	2017	2016
Tier 1 Capital	**125,705,038**	121,699,129
Total Capital	**132,927,584**	127,150,200
Total RWA	**770,783,448**	537,662,763
Ratio of Total Capital	**17.25%**	23.65%
Ratio of Tier 1 Capital	**16.31%**	22.63%
Ratio of CET 1 Capital	**16.31%**	22.63%

(e) Ratio of Total Capital to Total Assets	2017	2016
Total Capital	**132,927,584**	127,150,200
Total Assets	**696,637,971**	515,995,377
Total Capital to Total Assets	**19.08%**	24.64%

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

	2017			2016		
	RO	**RO**	**RO**	RO	RO	RO
	Credit risk	**Market risk**	**Risk Weighted Assets**	Credit risk	Market risk	Risk Weighted Assets
Ijara Muntahia Bittamleek	**25,020,643**	**-**	**188,835,041**	31,382,573	-	236,849,608
Sales Receivable and Other Receivables	**21,282,209**	**-**	**160,620,449**	13,402,401	-	101,150,196
Wakala Bil Istethmar	24,441,781	-	**184,466,272**	16,823,703	-	126,971,343
Musharaka Financing	**9,296,682**	**-**	**70,163,636**	288,889		2,180,294
Letter of Guarantees	**3,569,617**	**-**	**26,940,509**	2,223,091	-	16,778,045
Letter of Credit	**534,660**	**-**	**4,035,167**	256,945	-	1,939,208
Acceptance and Bills for Collection (Wakala)	**971,031**	**-**	**7,328,535**	1,658,026	-	12,513,404
Total	**85,116,623**		**642,389,609**	66,035,628		498,382,098

(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 Sharia 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 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 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:

	2017	2016
Details	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 Sharia guidelines.

5.2 Quantitative Disclosure

The related disclosure of Unrestricted Investment Account is given below:

a)PER to PSIA Ratio	2017	2016
	RO	RO
Amount of Total PER	-	779,239
Amount of PSIA by IAH	227,777,182	157,984,717
PER to PSIA Ratio	0%	0.49%

b) IRR to PSIA Ratio	2017	2016
	RO	RO
Amount of Total IRR	280,708	160,124
Amount of PSIA by IAH	227,777,182	157,984,717
IRR to PSIA Ratio	0.13%	0.10%

c) Return on Assets (ROA)	2017	2016
	RO	RO
Amount of Total Net Income (before distribution of profit to unrestricted IAH)	27,956,017	17,981,771
Total Amount of Assets	696,637,971	515,995,377
Return on Assets (ROA)	4.01%	3.48%

Return on Equity (ROE)	2017	2016
	RO	RO
Amount of total net income (after distribution of profit to IAH)	16,671,013	13,502,069
Amount of shareholders' equity	130,749,377	127,061,445
Return on Equity (ROE)	12.75%	10.63%

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

As of reporting date the Bank has only Unrestricted Investment Accountholder and distributed profit amounting OMR 4,197,020 (Dec 2016: OMR 1,195,473) during the period to Investment Accountholders.

f) Ratios of financing to PSIA by type of IAH

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

Gross Financing by type of contract	2017		2016	
	RO	%	RO	%
Sales Receivables and Other Receivables	189,353,137	31.92%	119,131,986	28.34%
Ijarah Muntahia Bittamleek	285,630,870	48.15%	236,908,190	56.36%
Musharaka financing	25,986,532	4.38%	807,517	0.20%
Wakala Bil Istethmar	92,233,136	15.55%	63,485,673	15.10%
Total Financing	593,203,675	100.00%	420,333,366	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:

Details	2017 Percentage	2016 Percentage
Unrestricted investment accounts share	50%	50%
Mudarib share	50%	50%

- The investment risk reserve at 2% 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	2017	2016
	RO	RO
Saving account	**137,475,222**	82,915,579
Investment accounts:		
One month	**15,000**	93,000
Three months	**649,418**	783,007
Six months	**2,178,665**	1,453,674
Nine months	**181,100**	92,000
One year	**18,277,655**	15,263,134
One year and a half	**2,092,223**	1,122,223
Two years	**66,546,681**	56,262,100
Three years	**37,486**	-
Four years	**13,039**	-
Five years	**59,543**	-
More than five years	**251,150**	-
	227,777,182	157,984,717

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

	2017	2016
	RO	RO
Share of profits	**4,197,020**	1,195,473
Funds invested	**227,777,182**	157,984,717
Ratio	**1.84%**	0.76%

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

	2017	2016
	RO	RO
Share of profits	**4,855,675**	1,025,301
Funds invested	**227,777,182**	157,984,717
Ratio	**2.13%**	0.65%

d) Movements on PER and IRR during the year

During the reporting year the Bank utilized OMR 779,239 (Dec-16: 176,414) from PER. However, the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to OMR Zero (Dec 2016: OMR 51,354).

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 120,584 (Dec 2016: OMR 118,818).

Following is the movement of IRR and PER:

	2017		2016	
	PER	IRR	PER	IRR
Beginning Balance at the beginning of the year	779,239	160,124	727,885	41,306
Additions	-	120,584	227,768	118,818
Transferred	(779,239)	-	(176,414)	-
Balance at the end of the year	-	280,708	779,239	160,124

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

OMR 779,239 (2016: OMR 176,414) utilized from PER during the year whereas no utilization in IRR.

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

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

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)

	2017	2016
Account type	Average rate of return	Average rate of return
Mudaraba Saving account	1.40%	0.74%
One month tenure	1.35%	1.39%
Three months tenure	1.53%	1.55%
Six months tenure	1.89%	1.90%
Nine months tenure	2.05%	2.07%
One year tenure	2.42%	2.45%
Eighteen month tenure	3.21%	3.28%
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

Off-balance sheet items	2017	2016
	RO	RO
Financial guarantee	53,881,017	33,556,090
Financial letter of credits	20,071,723	9,696,018
Acceptances	7,328,535	12,513,402
Bills for collection	104,113	-
Commitments	144,059,426	105,411,154
Total	225,444,814	161,176,664

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	2017	2016
Pool Income from Financing	26,353,692	16,860,015
Income from Investments	1,602,325	1,121,756
Total Pool Income	27,956,017	17,981,771
Profit Equalization Reserve	779,239	(51,354)
Investment risk reserve	(120,584)	(118,818)
Pool Income	27,956,017	17,981,771
Mudarib fee	(4,626,678)	(1,199,838)
Movement to or from PER/IRR	658,655	(170,172)
Total amount paid to IAH Mudaraba	(4,855,675)	(1,025,301)
Total amount attributable to shareholders pool including Wakala	19,252,903	15,586,460

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

Investment Risk Reserve (IRR)

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

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

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

- (Average Investment amount x Aggregate weightages given to the shareholders and investors) for each category of investors.
- This aggregate weightages depends on: Amount and Profit Payout Frequency.

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

Losses arising from receivables, financing and investment assets that started and ended in the same year will be 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 Organisations 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 Organisation, 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 Organisation 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 Organisation.

- The Risk Management framework structure is summarized below:

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

  The four risk management decision phases are:

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

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

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

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

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

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

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

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

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

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

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

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	2017		2016	
	RO	%	RO	%
Sales Receivable and Other Receivables	**189,353,137**	**31.92%**	119,131,986	28.34%
Ijarah Muntahia Bittamleek	**285,630,870**	**48.15%**	236,908,190	56.36%
Musharaka financing	**25,986,532**	**4.39%**	807,517	0.20%
Wakala Bil Istethmar	**92,233,136**	**15.55%**	63,485,673	15.10%
Total Gross Financing	**593,203,675**	**100.00%**	420,333,366	100.00%

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

	2017		2016	
	Gross Financing		Gross Financing	
	RO	%	RO	%
Personal	**316,307,269**	**53.32%**	265,334,557	63.12%
Small Medium Enterprises	**7,395,742**	**1.25%**	3,244,000	0.77%
Corporate	**269,500,664**	**45.43%**	151,754,809	36.10%
Government	**-**	**0%**	-	0%
Total	**593,203,675**	**100%**	420,333,366	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 53,881,017 (Dec 2016: OMR 33,556,090) 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 which the Bank has recently implemented.

- For all Past Due receivables and Impaired Financial assets, Specific Provisions is created and for Performing Financing Assets, General Provision is created according to CBO regulation. Specific Provisions is created where any payments of principal and/or profit are overdue by 90 days and above (in line with the CBO guidelines issued time to time) or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

- 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.

11.1 Quantitative Disclosure

(a) Total Gross Credit and Average Gross Credit

	2017		2016	
	Gross Financing	Average Gross Financing	Gross Financing	Average Gross Financing
	RO	RO	RO	RO
Sales Receivables and Other Receivables	189,353,137	154,242,562	119,131,986	104,267,569
Ijarah Muntahia Bittamleek	285,630,870	261,269,530	236,908,190	197,283,858
Musharaka financing	25,986,532	13,397,025	807,517	403,759
Wakala Bil Istethmar	92,233,136	77,859,405	63,485,673	50,756,741
Investments in Sukuk & securities	47,721,137	38,540,324	29,359,510	27,185,730
Interbank Wakala Placements	19,862,045	33,089,762	46,317,478	29,628,815
Total	660,786,857	578,398,606	496,010,354	409,526,471

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

	2017		2016	
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	-	-	-	-
AA+,AA-AA	3,849,846	234,581	-	2,413,438
A+, A, A-	4,908,766	2,052,869	115,500	7,034,302
BBB+, BBB, BBB-	26,296,833	15,879,281	8,996,655	34,643,524
BB+, BB, BB-	2,597,294	1,693,815	904,624	2,225,462
B+, B, B-	620,222	-	625,029	-
Unrated	9,448,175	1,499	18,717,702	688
Total	47,721,137	19,862,045	29,359,510	46,317,414

(b) Exposure in terms of geographical area

	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross financing	Investments in Sukuk & securities	Customer account, 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	2,707,746	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

	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross financing	Investments in Sukuk & securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2016	RO	RO	RO	RO	RO	RO
Sultanate of Oman	34,495,427	418,183,783	18,213,426	351,278,930	8,937,840	156,742,432
Other GCC countries	8,895,030	2,149,583	7,647,548	-	13,745,000	560,221
Europe and North America	2,872,324	-	1,342,854	-	-	2.786.916
Africa and Asia	54,697	-	2,155,682	-	550,032	1,087,095
Total	46,317,478	420,333,366	29,359,510	351,278,930	23,232,872	161,176,664

(c) Customer concentrations

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**

2016	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	-	265,334,557	-	157,703,285	-	31,436
Corporate	46,317,478	154,998,809	19,380,253	33,849,361	23,232,872	142,145,228
Government	-	-	9,979,257	159,726,284	-	19,000,000
Total	46,317,478	420,333,366	29,359,510	351,278,930	23,232,872	161,176,664

(d) Industry concentrations

	Assets: Due from banks and interbank Wakala	Assets: Investments in Sukuk & securities	Assets: Gross financing	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	**-**	**21,975,397**	**132,313,199**	**33,537,181**	**-**	**94,128,843**
Total	**19,862,045**	**47,721,137**	**593,203,675**	**525,851,542**	**19,338,529**	**225,444,814**

	Assets: Due from banks and interbank Wakala	Assets: Investments in Sukuk & securities	Assets: Gross financing	Liabilities: Current, unrestricted IAH and customer Wakala	Liabilities: Interbank wakala	Liabilities: Contingent liabilities and commitments
31 December 2016	RO	RO	RO	RO	RO	RO
Personal	-	-	265,334,557	163,525,970	-	31,436
Construction	-	-	33,727,662	2,440,460	-	34,445,522
Manufacturing	-	-	1,499,956	994,558	-	31,925,044
Financial services	46,317,478	707,515	-	1,250,000	23,232,872	-
Government	-	9,979,257	-	152,706,569	-	19,000,000
Other services	-	-	10,444,266	2,182,241	-	8,889,103
Others	-	18,672,738	109,326,925	28,179,132	-	66,885,559
Total	46,317,478	29,359,510	420,333,366	351,278,930	23,232,872	161,176,664

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

2017	Due from banks and interbank Wakala RO	Gross sales receivables and other receivables RO	Gross 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
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**

2016	Due from banks and interbank Wakala RO	Gross Sales receivables and other receivables RO	Gross 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
Construction	-	1,924,597	7,299,555	-	24,503,510	-	33,727,662	34,445,522
Electricity, gas and water	-	1,010,905	133,182	-	31,873,134	-	33,017,221	33,582,778
Financial institutions	46,317,478	-	-	-	-	707,515	47,024,993	-
Services	-	295,191	135,205	-	3,290,310	-	3,720,706	8,889,103
Personal financing	-	92,047,398	173,287,159	-	-	-	265,334,557	-
Government	-	-	-	-	-	9,979,257	9,979,257	19,000,000
Non-resident financing	-	-	2,149,583	-	-	-	2,149,583	-
Others	-	23,853,895	53,903,506	807,517	3,818,719	18,672,738	101,056,375	65,259,261
Total	46,317,478	119,131,986	236,908,190	807,517	63,485,673	29,359,510	496,010,354	161,176,664

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

2017	Due from banks and interbank Wakala RO	Gross Sales receivables and other receivables RO	Gross 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

2016	Due from banks and interbank Wakala RO	Gross Sales receivables and other receivables RO	Gross 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	46,317,478	2,834,249	1,137,867	3,863	17,826,600	5,647,945	73,768,002	35,404,390
1 to 3 months	-	6,577,418	2,487,371	8,444	12,027,200	-	21,100,433	15,896,552
3 to 6 months	-	8,019,245	3,533,100	11,994	3,911,196	-	15,475,535	8,799,642
6 to 9 months	-	6,615,903	3,788,955	12,863	457,700	-	10,875,421	11,425,306
9 to 12 months	-	7,125,904	4,307,462	14,623	3,634,636	-	15,082,625	52,695,803
1 to 3 years	-	44,076,604	37,348,713	126,790	7,081,257	1,604,327	90,237,691	23,161,712
3 to 5 years	-	23,415,830	32,476,438	110,250	3,966,878	10,993,238	70,962,634	5,943,335
Over 5 years	-	20,466,833	151,828,284	518,690	14,580,206	11,114,000	198,508,013	7,849,924
	46,317,478	119,131,986	236,980,190	807,517	63,485,673	29,359,510	496,010,354	161,176,664

(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:

31-Dec-17	**Performing financing RO**	**Non-performing financing RO**	**Specific provisions held RO**	**General provisions held RO**
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**	**159,027**	**73,632**	**4,373,955**
Non-resident financing	**1,892,917**	**-**	**-**	**18,929**
Others	**129,749,815**	**188,362**	**52,965**	**1,297,498**
	593,203,675	**347,389**	**126,597**	**7,142,919**

31-Dec-16	Performing financing RO	Non-performing financing RO	Specific provisions held RO	General provisions held RO
Construction	33,727,662	-	-	337,277
Electricity, gas and water	33,017,221	-	-	110,258
Financial institutions	-	-	-	-
Services	3,720,706	-	-	104,443
Personal financing	265,306,097	28,460	25,512	3,741,820
Non-resident financing	2,149,583	-	-	21,496
Others	82,174,515	104,561	26,140	976,513
	420,200,345	133,021	51,652	5,291,807

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

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
31 December 2017	**RO**	**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**

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
31 December 2016	RO	RO	RO	RO
Sultanate of Oman	418,050,762	133,021	51,652	5,270,311
Other countries	2,149,583	-	-	21,496
Total	420,200,345	133,021	51,652	5,291,807

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

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

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
31 December 2016	RO	RO	RO	RO
Personal financing	265,306,097	28,460	25,512	3,289,645
Non-resident corporate financing	2,149,583	-	-	21,496
Resident corporate financing	152,744,665	104,561	26,140	1,980,666
	420,200,345	133,021	51,652	5,291,807

(k) Change in loss provisions during the financial year

	2017	2016
	RO	RO
Balance at 1 January	**5,343,459**	3,927,988
General provision made during the year on sales receivables and other receivables	**644,963**	358,507
General provision made during the year on Ijara Muntahia Bittamleek	**666,884**	775,290
General provision made during the year on Wakala Bil Istethmar	**287,475**	254,578
General provision made during the year on Musharaka financing	**251,790**	8,076
Specific provision made during the year on sales receivable and other receivables	**74,945**	19,020
General and specific provision expense	**1,926,057**	1,415,471
Balance at 31 December	**7,269,516**	5,343,459

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

During the year, OMR 67,466 (Dec 2016: OMR 35,412) penalty is imposed to customer for delayed payment and OMR 85,427 (2016: OMR 17,451) has been transferred to Bank Muscat Charity Project Fund 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 Sharia approved collaterals and guarantees to mitigate credit risk. Assets offered by customer must meet the following criteria to be acceptable as collateral:
  - Assets must be maintaining their value, at the level prevalent at inception, until maturity of the facility approved;
  - Such assets should be easily convertible into cash, if required;
  - There should be a reasonable market for the assets; and
  - The Bank should be able to enforce its right over the assets if necessary

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

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

- Where eligible collaterals are available against facilities, the Bank takes independent valuation by approved valuators only and ensures that the assets held as collateral meet the criteria mentioned above. The Bank 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.

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

	2017	2016
	RO	RO
Real Estate	**302,132,132**	215,812,867
Movable Assets	**57,959,187**	60,018,010
Total	**360,091,320**	275,830,877

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 requirements.

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

	2017	2016
	RO	RO
Ijarah Muntahia Bittamleek	**285,630,870**	236,908,190

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 Sharia 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:
    - improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
    - improve risk management and governance
    - 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

	2017	2016
	RO	RO
Short-term Assets	**236,941,457**	162,539,052
Short-term Liabilities	**251,654,084**	194,913,467
Short-term Assets to Short-term Liabilities	**94.15%**	83.39%

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

	2017	2016
	RO	RO
Liquid Assets	**62,676,013**	62,917,136
Short-term Liabilities	**251,654,084**	194,913,467
Total Liabilities	**565,888,594**	388,933,932
Liquid Asset to Short-term Liabilities	**24.91%**	32.28%
Liquid Asset to Total Liabilities	**11.08%**	16.18%

(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
31 December 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)	-	-

31 December 2016	Due on demand and up to 30 days RO	More than 1month to 6 months RO	More than 6 months to 12 months RO	More than 1 year to 5 years RO	Over 5 years RO	Total RO
Cash and balances with Central Bank of Oman	16,253,563	-	-	-	346,095	16,599,658
Inter-bank Wakala and Due from banks	46,317,478	-	-	-	-	46,317,478
Financing to customers - net	21,348,259	34,396,498	23,627,617	137,928,664	180,506,318	397,807,356
Financial assets at fair value through equity	5,644,945	-	-	5,600,565	11,114,000	22,359,510
Financial assets at amortized cost	-	-	-	7,000,000	-	7,000,000
Investment in real estate	-	14,175,000	-	-	-	14,175,000
Intangible asset	-	-	-	-	2,121,330	2,121,330
Property and equipment	-	-	-	-	3,105,323	3,105,323
Other assets	169,510	413,030	193,152	3,731,340	2,002,690	6,509,722
Total assets	89,733,755	48,984,528	23,820,769	154,260,569	199,195,756	515,995,377
Interbank Wakala	8,987,872	385,000	385,000	13,475,000	-	23,232,872
Customer accounts, Wakala and unrestricted accountholders	35,471,918	57,510,655	78,958,082	133,763,516	45,624,940	351,329,111
Other liabilities	1,788,958	3,569,662	7,856,320	217,646	-	13,432,586
Investment risk and profit equalization reserve	-	-	-	-	939,363	939,363
Owners' equity	-	-	-	-	127,061,445	127,061,445
Total liabilities, equity of unrestricted investment accountholders and owners' equity	46,248,748	61,465,317	87,199,402	147,456,162	173,625,748	515,995,377
Net gap	43,485,007	(12,480,789)	(63,378,633)	6,804,407	25,570,008	-
Cumulative net gap	43,485,007	31,004,218	(32,374,415)	(25,570,008)	-	-

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 are made after a careful due diligence after taking necessary approvals including from Sharia to ensure that investments are made as per Sharia 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	2017	2016
	RO	RO
Equity Position	-	-
Foreign Exchange Risk	**22,391,617**	32,047,791
Commodity Risk	-	-
Total	**22,391,617**	32,047,791

(b) Foreign Exchange Net Open Position to Capital

	2017	2016
Foreign Exchange Net Open Position to Capital	**16.84%**	25.20%

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 is 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 is 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 Shariah 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.

(a) Breakdown of Market RWA	2017	2016
	RO	RO
Net income from financing activities	**26,666,609**	17,114,949
Add: Net income from investment activities	**3,092,157**	2,610,617
Add: Fee income	**3,502,187**	1,921,936
Less: Investment Accountholders share of income	**11,285,004**	4,479,702
Add : Other Income	**415,766**	211 ,239
Total Revenues	**22,391,715**	17,379,039
Less: Exceptional and extraordinary income	**-**	-
Gross Income	**22,391,715**	17,379,039
Gross Income times of Alpha (15%)	**3,358,757**	2,606,856
Operational Risk Weighted Assets 12.5x	**41,984,466**	32,585,698
Operational Risk Weighted Assets (Average of last 3 Years)	**32,302,324**	23,006,077

(b) Indicators for Operational risk exposures

	2017	2016
	RO	RO
• Gross Income taken in RWA calculation	**22,391,715**	17,379,039

- **There is no Sharia 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 31 December 2017.

16.2 Quantitative

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

31 December 2017	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	-	-	-	-	-	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 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	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	-	-

31 December 2016	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	-	-	-	-	-	16,599,658	16,599,658
Inter-bank Wakala and Due from banks	42,680,780	-	-	-	-	3,636,698	46,317,478
Financing to customers – net	66,390,033	53,762,599	45,642,039	148,119,952	83,892,733	-	397,807,356
Financial assets at fair value through equity	-	-	-	5,600,565	11,114,000	5,644,945	22,359,510
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	-	-	-	-	14,175,000	14,175,000
Intangible asset	-	-	-	-	-	2,121,330	2,121,330
Property and equipment	-	-	-	-	-	3,105,323	3,105,323
Other assets	111,759	191,777	66,174	605,085	1,268,664	4,266,263	6,509,722
Total assets	109,182,572	53,954,376	45,708,213	161,325,602	96,275,397	49,549,217	515,995,377
Interbank Wakala	8,937,840	385,000	385,000	13,475,000	-	50,032	23,232,872
Customer accounts, Wakala and unrestricted accountholders	9,956,503	44,931,480	55,801,145	143,961,509	27,510,481	69,167,993	351,329,111
Other liabilities	-	-	-	-	-	13,432,586	13,432,586
Investment risk and profit equalisation reserve	-	-	-	-	939,363	-	939,363
Shareholders' equity	-	-	-	-	-	127,061,445	127,061,445
Total liabilities and shareholders' equity	18,894,343	45,316,480	56,186,145	157,436,509	28,449,844	209,712,056	515,995,377
On-balance sheet gap	90,288,229	8,637,896	(10,477,932)	3,889,093	67,825,553	(160,162,839)	-
Cumulative profit sensitivity gap	90,288,229	98,926,125	88,448,193	92,337,286	160,162,839	-	-

- 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

	2017 RO	2016 RO
+200 bps	**3,281,878**	3,581,417
+100 bps	**1,640,939**	1,790,709
-200 bps	**(3,281,878)**	(3,581,417)
-100 bps	**(1,640,939)**	(1,790,709)

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:

	2017	2016
Items	RO	RO
Total distributable profits	**27,956,017**	17,981,771
Bank Share As " Mudarib and Rab ul Maal"	**16,671,013**	13,502,069
Depositors Share of profits	**8,823,698**	2,395,311
Bank Share As " Mudarib"	**4,626,678**	1,199,838
Net profit to be distributed to the depositors before IRR & PER	**4,197,020**	1,195,473
Investment Risk Reserve "IRR"	**(120,584)**	(118,818)
Profit Equalization Reserve "PER"	**779,239**	(51,354)
Net profit to be distributed to the depositors after IRR & PER	**4,855,675**	1,025,301

- During the period the Bank utilized OMR 779,239 (FY2016: 176,414) from PER for the purpose of enhancing the returns to depositors
- The Bank is taking all the Risk Weighted Assets funded by IAH for the purpose of arriving at Total Risk Weighted Assets and capital requirement is calculated accordingly.

17.2 Quantitative Disclosures

Historical Rate of Return of unrestricted Investment Accountholder:

	2017	2016	2015	2014
Items	RO	RO		
Profit Earned	**27,956,017**	17,981,771	10,063,445	5,537,082
Profit Distributed	**4,197,020**	1,195,473	896,195	243,609
Funds Invested	**227,777,182**	157,984,717	73,597,787	42,280,807
Return as % of Funds Invested	**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 Sharia 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

	2017			2016		
Items	RO	RO	RO	RO	RO	RO
	Credit risk	**Market risk**	**Risk Weighted Assets**	Credit risk	Market risk	Risk Weighted Assets
Ijara Muntahia Bittamleek	**26,200,862**	**-**	**188,835,041**	31,382,573	-	236,849,608
Sales Receivable and Other Receivables	**22,286,087**	**-**	**160,620,449**	13,402,401	-	101,150,196
Wakala Bil Istethmar	**25,594,695**	**-**	**184,466,272**	16,823,703	-	126,971,343
Musharaka Financing	**9,735,204**		**70,163,636**	288,889		2,180,294
Letter of Guarantees	**3,737,996**	**-**	**26,940,509**	2,223,091	-	16,778,045
Letter of Credit	**559,879**	**-**	**4,035,167**	256,945	-	1,939,208
Acceptance and Bills for Collection (Wakala)	**1,016,834**	**-**	**7,328,535**	1,658,026	-	12,513,404
Total	**89,131,558**		**642,389,609**	**66,035,628**		**498,382,098**

19. General Disclosure from Corporate Governance

19.1 Qualitative Disclosure

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

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

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

The following disclosure summarizes disclosure of related party:

31 December 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	**9,303,444**	**10**	**237**	**9,303,691**

31 December 2016	Principal shareholders	Sharia'a Board	Senior management	Total
	RO	RO	RO	RO
Sales receivables & other receivables	419,453	19,361	120,133	558,947
Ijara Muntahia Bittamleek	1,837,778	83,835	610,529	2,532,142
Customers' accounts	612,990	1,799	200,508	815,297
Unrestricted investment accountholders	3,354,000	13	-	3,354,013

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

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**

31 December 2016	Principal shareholders	Sharia'a Board	Senior management	Total
	RO	RO	RO	RO
Profit account	114,517	3,061	18,832	136,410
Commission income	209	-	1	210
Operating expenses				
Staff expense	-	-	1,112,459	1,112,459
Other expenses	72,350	54,598	-	126,948

- 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. The Bank was also the part of campaign launched by local newspaper and incorporated discussions at a number of high profile forums, debates at colleges and universities throughout Muscat. 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. Sharia 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 (Fatawa) 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 Organisational, 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 Abut 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.

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 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 67,466 has been transferred to Charity account in CY2017. An incident identified in which the Bank charged some customers who have delayed payment an amount of OMR 58,474/- over and above the applicable penalty. The same will be returned during 1Q2018 to the customers.

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

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

- **Remuneration of Sharia board members**
- SSB members are compensated for their contribution in the business supervision by an agreed 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 59,623 (Dec 2016: OMR 54,598) on account of remuneration to the SSB which includes accommodation, travelling expenses, meeting and annual fees.

21. Disclosures on Remuneration

- The Bank has engaged a consultant to achieve compliance with CBO requirements issued in January 2015 covering the main components of sound compensation practices, consistent with Basel Committee for Banking Supervision (BCBS) paper on Pillar 3 disclosure requirements for remuneration issued in July 2011.

- 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:
  - -the level of the job position in the management hierarchy as defined by grade (arrived at by objective Job Evaluation)

  - 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 2017 and OMR 5,400 was paid to the members in lieu of sitting fees.

- The key management comprises of 11 members (2016: 13 members) of the management executive committee. The below table provides details of key management compensation:

	2017	2016
	RO	RO
Salaries and Benefits	**1,327,585**	1,317,834
End of Service Benefits	**115,717**	158,211
Total	**1,443,302**	1,476,045

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-17	Dec-16
	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	**(21,771,158)**	(25,284,755)
3	Accumulated other comprehensive income (and other reserves)	**389,622**	10,972
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**	**130,709,656**	126,817,409
8	**Common Equity Tier 1 capital: regulatory adjustments**		
9	Prudential valuation adjustments	**(123,463)**	(169,430)
10	Unrealized losses		
11	Goodwill (net of related tax liability)	-	-
12	Other intangibles other than mortgage-servicing rights (net of related tax liability)	**(2,203,452)**	(2,121,330)
13	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**(1,606,622)**	(1,174,897)
14	Mortgage Servicing rights (amount above 10% threshold)		
15	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
16	Amount exceeding the 15% threshold		
17	of which: significant investments in the common stock of financials		
18	of which: mortgage servicing rights		
19	of which: deferred tax assets arising from temporary differences	**(1,071,081)**	(1,762,345)
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**	**(5,004,618)**	**(5,228,002)**
23	**Common Equity Tier 1 capital (CET1**	**125,705,038**	**121,699,129**
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	-	-
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)**	**125,705,038**	**121,699,129**
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**	5,291,807
51	**Tier 2 capital before regulatory adjustments**	**7,142,919**	**5,291,807**
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	**79,627**	159,264
56	Tier 2 capital (T2)	**7,222,546**	5,451,071
57	Total capital (TC = T1 + T2)	**132,927,584**	127,150,200
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)	**770,783,448**	**537,662,763**
62	Of which: Credit risk weighted assets	**716,089,507**	482,608,895
63	Of which: Market risk weighted assets	**22,391,617**	32,047,791
64	Of which: Operational risk weighted assets	**32,302,324**	23,006,077
65	**Capital Ratios**		
66	Common Equity Tier 1 (as a percentage of risk weighted assets)	**16.31%**	22.63%
67	Tier 1 (as a percentage of risk weighted assets)	**16.31%**	22.63%
68	Total capital (as a percentage of risk weighted assets)	**17.25%**	23.65%

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-17	Dec-17	Dec-16	Dec-16
Cash and balances with Central Bank of Oman	42,813,968	42,813,968	16,599,658	16,599,658
Certificates of deposit	-	-	-	-
Due from banks	19,862,045	19,862,045	46,317,478	46,317,478
Islamic Financing	560,545,360	560,545,360	397,807,356	397,807,356
Investments in Sukuk and Securities	47,721,137	47,721,137	29,359,510	29,359,510
Financing to banks	-	-	-	-
Investment in Assets generated revenue	14,175,000	14,175,000	14,175,000	14,175,000
Property and equipment	2,428,106	2,428,106	3,105,323	3,105,323
Deferred tax assets	2,677,703	2,677,703	2,937,242	2,937,242
Other assets	6,414,652	6,414,652	5,693,810	5,693,810
Total assets	696,637,971	696,637,971	515,995,377	515,995,377
Liabilities				
Due to banks	19,338,529	19,338,529	23,232,872	23,232,872
Customer deposits	526,149,990	526,149,990	352,268,474	352,268,474
Current and deferred tax liabilities	-	-	-	-
Other liabilities	20,400,075	20,400,075	13,432,586	13,432,586
Subordinated Sukuk	-	-	-	-
Total liabilities	565,888,594	565,888,594	388,933,932	388,933,932
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	389,622	389,622	10,972	10,972
General reserve	3,975	3,975	-	-
Retained earnings	(21,771,158)	(21,771,158)	(25,175,033)	(25,175,033)
Cumulative changes in fair value of investments	35,746	35,746	134,314	134,314
Subordinated debt reserve	-	-	-	-
Total shareholders' equity	130,749,377	130,749,377	127,061,445	127,061,445
Total liability and shareholders’ funds	696,637,971	696,637,971	515,995,377	515,995,377

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-17	Dec-17	Dec-16	Dec-16
Cash and balances with CBO	**42,813,968**	**42,813,968**	16,599,658	16,599,658
Balance with banks and money at call and short notice	**19,862,045**	**19,862,045**	46,317,478	46,317,478
Investments		-		-
Of which Held to Maturity	**7,000,000**	**7,000,000**	7,000,000	7,000,000
Out of investments in Held to Maturity:		-		-
Investments in subsidiaries	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-
Available for Sale		-		-
Of which: Investments in Sukuks and Securities	**40,721,137**	**40,721,137**	22,359,510	22,359,510
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	**388,518,697**	**388,518,697**	392,435,269	392,435,269
Islamic Financing to non-resident Customers for domestic operations		-		-
Islamic Financing to non-resident Customers for operations abroad	**1,892,917**	**1,892,917**	2,128,087	2,128,087
Islamic Financing to SMEs	**7,395,742**	**7,395,742**	3,244,000	3,244,000
Islamic Financing from Islamic banking window		-		-
Fixed assets	**2,428,106**	**2,428,106**	3,105,323	3,105,323
Other assets of which:		-		-
Profit Receivable	**3,560,366**	**3,560,366**	2,243,460	2,243,460
Prepaid Expense	**386,614**	**386,614**	279,003	279,003
Refundable Deposits	**83,388**	**83,388**	83,388	83,388
Goodwill		-		-
Other intangibles	**2,203,452**	**2,203,452**	2,121,330	2,121,330
Deferred tax assets	**2,677,703**	**2,677,703**	2,937,242	2,937,242
Others	**162,918,836**	**162,918,836**	966,629	966,629
Debit balance in Profit & Loss account				
Total Assets	696,637,971	696,637,971	515,995,377	515,995,377

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-17**	**Dec-17**	Dec-16	Dec-16
Paid-up Capital	**150,000,000**	**150,000,000**	150,000,000	150,000,000
Of which:		-		-
Amount eligible for CET1	**126,927,131**	**126,927,131**	126,927,131	126,927,131
Amount eligible for AT1	-	-	-	-
Reserves & Surplus	**35,746**	**35,746**	134,314	134,314
Total Capital	**130,749,377**	**130,749,377**	127,061,445	127,061,445
Deposits Of which:		-		-
Deposits from banks		-		-
Customer deposits	**526,149,990**	**526,149,990**	352,268,474	352,268,474
Deposits of Islamic Banking window		-		-
Other deposits(please specify)		-		-
Borrowings Of which: From CBO		-		-
From banks	**19,338,529**	**19,338,529**	23,232,872	23,232,872
From other institutions & agencies	-	-	-	-
Borrowings in the form of bonds, Debentures and Sukuk	-	-	-	-
Others (Please specify)		-		-
Other liabilities & provisions Of which:		-		-
Creditors and Accrual	**11,755,939**	**11,755,939**	**7,976,235**	**7,976,235**
Payment Order	**3,925,700**	**3,925,700**	**3,569,662**	**3,569,662**
Profit Payables	**4,532,723**	**4,532,723**	**1,669,044**	**1,669,044**
Others	**185,713**	**185,713**	**217,645**	**217,645**
Total Equity and Liabilities	**696,637,971**	**696,637,971**	**515,995,377**	**515,995,377**

Table 3

Disclosure template for main features of regulatory capital instruments

Common equity comprises of 1,500,000,000 equity shares of RO 100 each fully paid up, issued and governed under the law of Sultanate of Oman.

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

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Sayyid Amjad bin Mohammed bin Ahmed Al Busaidi
Board Chairperson
Bank Nizwa S.A.O.G.
Oman

6th March 2018

Dear Sirs,

Subject: Annual Board Evaluation

In line with the revised ***"Code of Corporate Governance (COCG) for Public Listed Companies",*** issued in **July 2015"** and subsequent clarification via Circular Ref. E/20/2016 issued on October 2016, we have completed our exercise of the Board evaluation for Bank Nizwa.

The primary objective of the engagement was to evaluate the Board of Directors to ensure the compliance with the revised code referred above and suggest any improvement opportunities to enhance the effectiveness and efficiency of the Board of Directors.

The evaluation was performed based on the parameters approved by Shareholders in the AGM in 2017.

On a sample basis, we conducted a high level of review of key governance documentation along with the BOD Minutes of Meeting and other supporting information.

Protiviti highlighted certain improvement opportunities and shared the same with the Board Chairperson.

Yours sincerely,

Darshan Mehta
Managing Director

APPENDIX- SHARIA SUPERVISORY BOARD RESOLUTIONS (Fatwas)

FATWA: RBG: the procedures of buying a property from Islamic bank / Islamic window they using a DM contract via lease to own which has been used at Bank Nizwa.

- Sharia SSB discussed the request from retail division in the following case:

If the customer wants to transfer his financing from an Islamic bank / window to Bank Nizwa and the customer already took the finance with other bank / window via DM. what are the procedures that we need to use since we don't have DM contract in Bank Nizwa?

- After discussing the Sharia Board has decided to use the following steps:

1. Customer comes to Bank Nizwa to make a request to transfer his finance which he had by DM contract from the other bank.
2. Customer needs to get a new evaluation for the property from third party. In the same time customer needs to present a liability certificate from the other bank / window as an evidence for Bank Nizwa regarding the remaining balance.
3. After receiving the evaluation report, Bank Nizwa sends an MOU to the other bank and then they sign an internal sale contract with other Bank / Window and customer to purchase their share from the property according to the evaluation report.
4. After all parties agree and sign on the internal sale contract, Bank Nizwa will sign a lease to own contract with the customer with instruction of payment.
5. Then Bank Nizwa will send the price of other bank / window share which equal to their part of the property.
6. The remaining balance will consider as advance rental payment.
7. The original title deed may it be under both customer name and the other bank/window or only customer name as an agent of the Musharaka contract. So the title deed should be transferred to Bank Nizwa as a new owner of the property.

- Another inquiry from Risk division :

According to the fatwa, a changed is done in the Ijarah contract which states the percentage owned by the customer which is then reviewed and approved by the SSB. According to the previous steps, the finance will be done through a lease to own contract whereby he bank will be the sole owner of the property and hence, there will be no indication for any percentage owned by the customer.

The department is therefore asking if it can buy the property without identifying the percentage owned by customer.

Resolution (3/21/09042017):

"The SSB sees that in this case the principle of exit should be applied to buy the shares of the Islamic window/ Islamic Bank only; whereby Bank Nizwa buys the other bank's share and therefore leases the shares to the customer. Bank Nizwa can also buy the whole property (window share and customer), and lease it back to the customer and the Ijarah may be fixed or diminishing according to the client's payments. The SSB also sees that it is important to accelerate the activation of the diminishing Musharakah finance.

FATWA: Call Account Mudarbah investment fatwa

The SSB of Bank Nizwa has thoroughly reviewed the Call Account program (Mudaraba Investment account) which depends on the following steps:

- The Mudaraba contract is an investment agreement between the clients and Bank Nizwa whereby the first party provides the capital (Rab AlMal) while the second party (Mudarib) manages the investment and invests the capital after exchanging the offer and acceptance for the investment period agreed.
- The Mudaraba investment will be open-ended whereby the investment manager invests the Mudaraba capital in Sharia Compliant investments. The Mudarib is also allowed to invest his personal funds in the Mudaraba investment.
- During the exchange of the offer and acceptance, both parties agree on an expected profit rate from the Mudaraba investment. Also, it is allowed to refer to an index to estimate an expected profit.
- In case of losses, the Rab AlMal only bears the losses while the Mudarib does not but loses his efforts except for the cases of gross negligence, willful misconduct or breaching the terms of the agreement.
- The Mudaraba investment becomes restricted if the Rab AlMal restricts the Mudaraba investment in a specific

sector or good or in any other restriction.

- When the Mudaraba investment matures, and after the IFI receives its share from the Mudaraba investment, the Mudaraba investment manager shall distribute the actual profits according to the profit percentage and rate agreed.
- The Mudaraba investment manager shall retain, as an incentive, any excess profit over and above of the expected profit rate.
- The Rab AlMal shall bear the risk of the investment and its losses, if any, and that the Mudarib shall not be a guarantor except in cases of gross negligence, willful misconduct or breaching the terms of the agreement.
- It is allowed to give a prepaid profit during the investment as long as a settlement takes place whereby the actual profit is compared to the prepaid paid profit at the end of the Mudaraba investment.
- All direct expenses and fees from the investment shall be deducted from the invested funds.
- It is allowed to have a minimum balance to participate in the Mudaraba investment.
- In the event the Rab AlMal wishes to end the investment before maturity, the Rab AlMal must then send a notice to the Mudarib whereby he will calculate the profit that will be paid to the client according to the profit paid at the end of the investment period in the savings account. This percentage will then be used to calculate the client's profit for the period invested by the client.
- The Mudaraba investment will be renewed automatically, and if the Rab AlMal wishes to continue in the investment pool, then the principal and actual profit will be reinvested.
- The client also has the option to not renew the investment automatically, and in such an event an acceptance notice will be sent directly to the client for his approval.

The Sharia Supervisory Board assures that "Call Account" Mudaraba program is compliant with Sharia rules issued by the SSB of the bank and is also in compliant with AAOIFI standards especially Mudaraba standard no.13 and also other related sharia and accounting standards, and the laws of the Sultanate of Oman.

FATWA: SSB Fatwa for the Internet banking program for corporates

The Shariah Supervisory Board has reviewed the Internet Banking Program for corporate adequately. This program is based on the details mentioned in the program and on the following basic operational steps:

- The Bank provides Internet services to corporate that maintain current or Mudarabah investment accounts or have commercial financing in the Bank in (LC Murabaha / Lc wakalah and can use the website to carry out account related services, cards, transfer of funds, payment orders, Other.
- The Bank provides the necessary protection and control methods such as anti-hacking systems and security programs to ensure user identity, as well as sending a text message or email confirmation after any transaction.
- Online transactions are subject to the general terms and conditions posted on the Bank's website and fees related to each
- Operations are carried out via the Internet at the rate and amounts determined by the Bank on a daily and monthly basis for each transaction. Customers may change the limits set by the Bank for daily and monthly transactions and for each transaction, and if Customer's actions exceed these limits, the Customer will receive an error message
- The Bank applies the Privacy Policy so that all information is used in accordance with legal requirements to improve services. The Bank provides internet services by its own independent decision and is not liable for any losses resulting from the transactions executed according to customers' request and instructions or due to a defect in the Internet systems. All Internet services are subject to the laws in force in Oman.
- All the instructions of the account holders to execute the transactions received through the Internet to be audited by the operation executor and supervisor before the introduction of the process to the accounting system, and the bank will collect the fees for each process during implementation within two days. The services include a special section of the frequently asked questions that customers ask with their answers to facilitate the provision of information.
- The Sharia Supervisory Board assures that "Call Account" Mudaraba program is compliant with Sharia rules issued by the SSB of the bank and is also in compliant with AAOIFI standards especially Mudaraba standard no.13 and also other related sharia and accounting standards, and the laws of the Sultanate of Oman.

The Sharia Supervisory Board assures that "E-banking services" program for the Corporate Dept. is compliant with Sharia rules Issued by the SSB of the bank and is also in compliant with AAOIFI standards especially Mudaraba standard no. (38) And accounting standard N (1) General presentation and Disclosure and also other related sharia and accounting standards, and the laws of the Sultanate of Oman.

FATWA: SSB fatwa related the Investment in mixed shares and profit-purification mechanism.

The Shariah Board reviewed the offer memorandum submitted by the Shariah Compliance Department regarding the investment in the shares of mixed companies and insurance companies and placed the following controls:

Resolution (3/22/05072017):

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:
    - 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 asset or in some other way, 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.
    - 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.
    - 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:
    - Adherence of the insurance company to Shariah principles in its business.
    - The insurance company shall have a SSB.
    - The insurance company shall have an internal sharia control.
    - 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:
    - 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.
    - 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.
    - Investments transactions authorized by Sharia 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.
    - 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 Shariah 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.
- 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. General Provisions:

- 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.
- There is no objection to invest or act as a broker in shares of permissible companies that comply with the prescribed Shariah 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.
- 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.

7. All the above controls shall apply the following:

- To invest by acquiring the share for the purpose of its annual dividends.
- Trading, selling and buying in order to profit from the difference between the two share prices.
- 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.
- 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.

FATWA: Wealth management product

Introduction: The Wealth Management Department in Bank Nizwa offers special and unique services that include a portfolio of new and exquisite products and services through personal and direct contact via a specialized and trained team to the degree that satisfies our clients and exceeds their expectations.

The following Terms & Conditions apply to Bank Nizwa Wealth Management clients in addition to the General Terms & Conditions of Bank Nizwa:

1. **Membership** the bank has the right to upgrade / downgrade the clients to wealth management. Clients can also opt out by providing a written communication to the bank branch.
2. **Waiver of Charge**s Wealth Management clients will be eligible to the waiver of the following charges:
3. **Platinum Debit Card** clients will be eligible for waiver of debit card issuance, annual fees, and supplement & replacement charges.
4. **Pay Orders** issuance charges.
5. **Standing Instructions** waiver of charges for set up of SI.

6. **Cheque Books:** Waived Cheque books charges.
7. Waiver of Bank Nizwa charges on international remittances.
8. **Membership Validity:** 1 year and will be reviewed by the Bank annually. The Bank has the right to withdraw client membership without providing the reasons.
9. **Criteria** The criteria for selecting the eligible customers under each segment are the prepared by the Bank. The Bank's classification of segments that provide a range of services, products, prices and service channels that suit the requirements and needs of clients.
10. The clients are assigned to Bank's segments when opening the account according to several criteria's.
11. 6. These criteria are several alternatives. The bank may use a combined criteria according to the following:
    - Monthly salary transformer
    - Open a current account
    - Opening an investment account.
    - Initial deposit
    - Average balance (last 3 months) in all accounts.
    - Work Title.
    - Social status / social Influence.
12. The current account balance will not be viewed as single criteria when upgrading the client, but rather a combined criteria and the relationship with the Bank in terms of financing, deposits and investment.
13. Bank Nizwa will design products and services for wealth management clients. The customers can access and avail all the products and services available at the Bank within the limits of each product and service offered by the Bank different channels.
14. In accordance with the Bank's Sharia rules, the Bank does not grant gifts or waivers on commissions or fees to wealth management customers based on their current account balances, but after analyzing the Bank's relationship which reflects all transactions from other accounts, investments and others.
15. **Offers:** Bank Nizwa customers are entitled to upgrade their wealth management customer(s) accounts by depositing an average amount of not less than RO 30,000 for 3 months (excluding current accounts) or a monthly salary of RO 3,000.
16. **Offers and privileges:** The customer is eligible for a range of privileges and offers provided by third parties from time to time. The bank is not responsible for the offers and privileges provided by any third parties where the bank does not pay the merchants or take from the customer a fee in exchange for that, provided that the goods are permissible. The Bank is not responsible for not receiving notices or letters related to the Bank or Abut the quality of services and goods provided. The Bank does not guarantee the quality of the services or the quality of the goods provided. Under no circumstances shall the Bank be liable for any direct or indirect consequential losses. Unless only in cases of gross negligence, misconduct, underperformance, transgression or violation T&C.
17. **AMENDMENT OF TERMS AND CONDITIONS:** The Bank reserves the right to amend, add, or delete any of above terms and conditions. The terms and conditions will be added on the Bank's website. The Bank will also inform the wealth management customers of any amendments via electronic means of communication
18. **Resolution (6/21/09042017):**
19. After further review and discussion, the SSB has decided the following:" There is no issue in in using this product as long as the services are explained according to SSB regulations and as explained above. Also, the charges exempt from the current account, are the charges related to depositing and withdrawing, and all other activities are subject to charges.
20. The SSB has therefore ruled the following:
21. It is allowed for the bank to provide free services related to the withdrawal and deposit of funds e.g. cheques, ATM cards, account statements; customer requests through phone, fax, and internet; transaction notifications via SMS and internet; lounge services, and remittances. These services are not considered haram, as to a creditor giving a loan, because these services are either related to the bank's fulfillment to the client, which is mandatory by the bank (debtor), or it is related to receiving funds from the client, which is related to the benefit of the bank (debtor).
22. It is not allowed for the bank to deposit interest in clients' current accounts in the form of cash, gifts, services, benefits, and exemption of fees not related to withdrawals and deposits e.g. exemption of Safe locker fees, credit card fees, and L.C. fees all of which bears a cost to the bank and is considered a benefit on the loan.

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And Allah knows best.

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