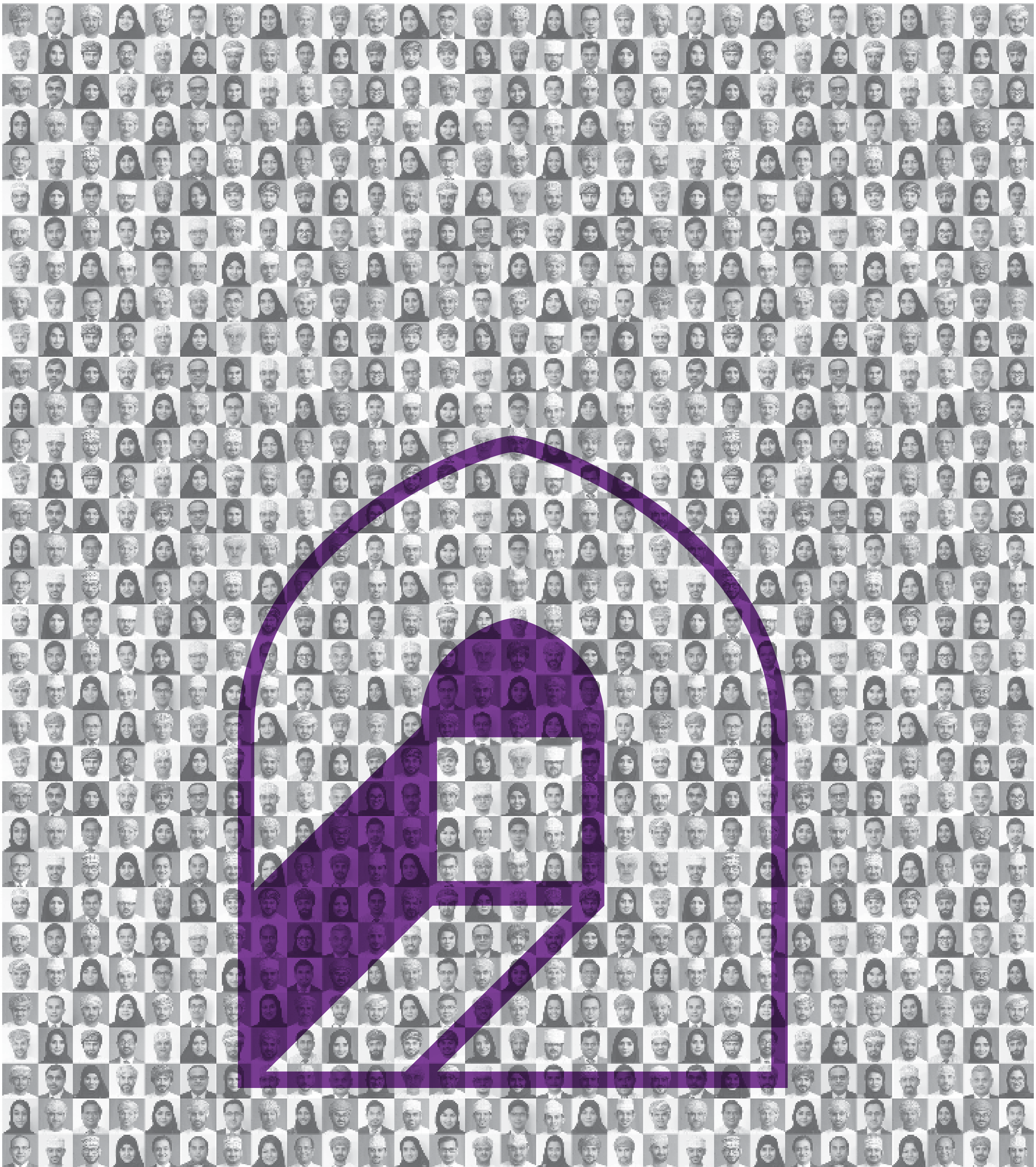
ANNUAL REPORT 2015

بنك نزوى
Bank Nizwa



We are Bank Nizwa

At Bank Nizwa, we have assembled some of the best talents to work together and help our stakeholders attain their goals.

For our customers, we deliver an enriched banking experience that's highly principled, truly modern, refreshingly personal and genuinely open.

For our shareholder, we help create a valuable brand that delivers innovative banking products and services based on the highest moral values.

For our community, we engage as ambassadors of the nation's first Islamic bank – representing the best of Islamic and Omani culture.

His Majesty Sultan Qaboos bin Said

Contents

BOARD OF DIRECTORS

From Left to Right:

Sheikh Yousuf bin Yaqoub Al Harthy (Board Member)

Sheikh Muadh bin Salim Al Ghazali (Board Member)

H.E. Sheikh Ahmed bin Saif Al Rawahi (Vice Chairman)

Sayyid Amjad bin Mohammed Al Busaidi (Chairman)

Sheikh Abdulaziz bin Saud Al Khalili (Board Member)

Sheikh Saif bin Hilal Al Mawali (Board Member)

Mr. Musabah bin Saif Al Mutairy (Board Member)

Dr. Said bin Mohammed Al Saqri (Board Member)

MANAGEMENT TEAM

Dr. JAMIL EL JAROUDI
Chief Executive Officer

Dr. ASHRAF BIN NABHAN AL NABHANI
General Manager
Corporate Support

KHALID AL KAYED
General Manager
Finance

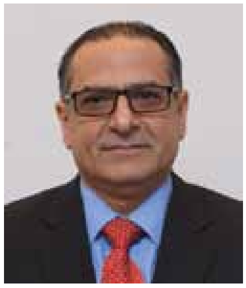
NASSER BIN SAID AL LAMKI
General Manager
Internal Audit

HELMI IZHAM HARUN RASHID
General Manager
Wholesale Banking

SHANTANU GHOSH
Deputy General Manager
Operations

MOHAMED FIDA HUSSAIN
Assistant General Manager
Risk

ASAD BATLA
Assistant General Manager
Retail



DR. YOUSUF JANAHI
Assistant General Manager
Information Technology

Dr. ANWAR SOUBRA
Head of Sharia Compliance

AKBAR BIN ABDUL RASHEED AL BALUSHI
Head of Compliance

TARIQ OSMAN
Head of Legal Department/
Secretary to the Board of Directors

CHAIRMAN'S REPORT

Sayyid Amjad Mohammed Al Busaidi

for the financial period ended
31st December 2015

Dear Shareholders,

As Salamu'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 2015. Bank Nizwa achieved a number of key milestones in 2015 that strengthened 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 2015 towards achieving our strategic ambitions, and to set out our plans for 2016 and onwards.

In 2015, the business environment proved to be challenging for the financial services industry. The start of the year was surrounded with uncertainties on several fronts, from falling crude oil prices to the weakening of growth in key economic sectors which all impacted the liquidity position in the system and increased further competition in the market.

Given these conditions, I feel your Bank has performed commendably during the year and achieved the monthly Break-even Point before provisions in December 2015. This reflects the wisdom of our leadership, the support of our shareholders, the loyalty of our customers, the diligence of our employees, and our strong commitment of providing a service that excels in continuing to serve our customers, economy and country.

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.

FINANCIAL PERFORMANCE

The year 2015 was a momentous year for Bank Nizwa as the Bank reached a key milestone despite economic challenges. During the year, Bank Nizwa's income from jointly financed, investment and receivables increased by 82% while total assets grew by 37%. Both the Retail Banking and Wholesale Banking Divisions delivered a strong performance in 2015 which helped boost operating revenue to 11.9 million Omani Rials showing a growth of 58% from 2014.

During the year, operating expenses grew only by 4% as part of bank's efforts of cost optimization. As a result, cost to income ratio has declined to be lower than 100% which aided in reaching the monthly breakeven point target. In 2016, the Bank is targeting to reduce this ratio further by increasing its revenues and continuous monitoring cost.

As part of our commitment to build up a strong customer base, deposit portfolio doubled during the year to reach 188 Million Omani Rials, compared to previous year of 93.7 million Omani Rials. Financing Portfolio grew by 99% to reach 273 million Omani Rials compared to the previous year of 137 million Omani Rials. As at 31 December 2015, the Bank's capital adequacy ratio was 35.79 per cent. As a result of revenue growth, managing and monitoring the cost, the net loss after tax and provision decreased by 32% over the previous year from 7.7 million Omani Rials to 5.3 million Omani Rials.

INNOVATION

At Bank Nizwa, innovation continues to be a catalyst that shapes the way it responds to the evolving needs of the customers. The results of its push to develop new, value added financial solutions have led to landmark results across multiple divisions. Retail Banking launched a number of new Sharia-compliant instruments to help customers acquire the automobiles and homes of their dreams. As part of its digital expansion strategy, the bank launched its dedicated mobile application to provide customers with greater banking accessibility. The bank will continue to intensify its efforts to reach customers through a whole new range of e-banking services.

Going the extra mile to reaffirm its commitment towards customer satisfaction, the Bank also launched a full suite of credit cards in partnership with MasterCard. The move proved to be a milestone, introducing the widest range of Sharia-compliant cards in the market and offering customers greater financial flexibility with access to over 35 million locations worldwide.

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

RETAIL FOOTPRINT

In efforts to get closer to customers and gain a better understanding of their needs, the Bank now operates with 11 full-fledged branches. In 2016 and beyond, we will continue to grow our footprint to reach communities across the length and breadth of the Sultanate and make Islamic banking more accessible.

CUSTOMER EXPERIENCE

Offering customers an enriched and rewarding banking experience will always be at the core of everything we do. The Bank focused on embedding its Customer Service Excellence Program in its organisational culture via proactive servicing and improved complaint management, resulting in higher customer satisfaction scores and reduced complaints. As an Innovative Bank, we also expanded digital services across all channels, especially mobile banking and launched innovative products and services. In addition, customer service was driven through social media platforms and increased customer service availability on all social media platforms including Facebook and Twitter. We envisage continuing to deliver superior customer services and products offerings as well as reinforcing the Bank's position as a digital innovator in the Country.

HUMAN CAPITAL

Our staff is a key driver of our success, and we continue our efforts towards strengthening their capabilities and enable them to keep pace with growth in the Islamic banking industry.

The Bank's Training and Development unit continues to provide staff members with innovative banking, managerial and functional training. Over 200 of our employees enrolled in different programs to equal more than 700 training opportunities in 2015.

We remain committed to increase the number of Omanis employed in the financial and banking sector, and we will continue to invest in our employees. Our annual engagement survey showed, once again, that our employees exhibited strong commitment which is the driving force behind the Bank's success and efforts were centred on advancing capacities and capabilities to become the leaders of tomorrow in this burgeoning industry.

The Bank is fully committed to attracting the best and brightest talent while at the same time also focusing equally on retention to become an employer of choice by creating a nurturing and empowering corporate culture that promotes innovative and forward thinking.

ISLAMIC FINANCE AWARENESS

Since the very beginning, we have taken it upon ourselves to empower communities with the knowledge and understanding of the benefit of Sharia compliant solutions and present them with new, untapped opportunities. We have become the unofficial ambassador for Islamic Finance in Oman by conducting a number of open-sessions to give different segments of society direct access to our experts and advice on making informed decisions in accordance with their beliefs. In 2015, the Bank organized its second annual "Knowledge-forum" which brought prominent international Islamic finance experts to Oman and aimed to create a platform for discussing the future of Islamic finance in the Sultanate.

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

CORPORATE GOVERNANCE

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

FUTURE OUTLOOK

Looking ahead, we believe that economic challenges will remain and will have a direct impact on the industry. However, the diversification efforts and economic activity in the Sultanate is pointing towards a positive growth opportunity underpinned by public investment as a number of major projects are underway on back of strong fiscal buffers that were created after running years of surplus that will support diversification and growth well into the future and this will be further supported by Oman's position on trade and investment and a sound financial sector. Taking advantage of the expansion of economic activity, the Bank's strategy is well set to keep Bank Nizwa on the growth path.

We made good strides in scaling up our growth efforts in 2015 by revising our strategy to address the changing operating environment. Moving forward, we will be guided by the 2020 business strategy. The strategy has been built on five key areas: **to increase financial performance, to deliver excellent customer service experience, to drive core business with efficiency and technological advancement, to build a high performance working environment and to enhance Bank Nizwa's ability as a progressive organization.**

With a clear strategy in place, talent and expertise within the team, and greater growth plans for the coming year, we are optimistic that we will continue to achieve better results in coming years and in particular 2016 as we continue to work on enhancing our unique offering and refining our competitive edge. Customers will continue to be at the heart of our business, operations and our values. We will continue to implement our robust strategy to deliver excellent products and services to customers, whilst increasing shareholder value.

Our aim is to build on the key achievements of 2015 and to continue to enhance products and services to ensure the Bank's long-term competitiveness and enhance value for our shareholders.

ACKNOWLEDGEMENT

On behalf of the Founders, Board of Directors, Executive Management and staff, I would like to express our sincere gratitude to His Majesty Sultan Qaboos bin Said, for his foresight and visionary leadership that continues to advance the nation and the banking sector in particular. Special thanks 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 2016 being another successful year for Bank Nizwa.

Amjad Mohammed Al Busaidi

Chairman

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

Tel 968 24709181
Fax 968 24700839

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

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Bank ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision No. 1/2009 dated 18 March 2009. The Report is set out on pages 11 to 19.

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

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

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

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Bank's annual report, and is not to be used for any other purpose; and we accept no responsibility to any third party. This report relates only to the Report included in the Bank's annual report for the year ended 31 December 2015 and does not extend to the financial statements or any other reports of the Bank, taken as a whole.

03 March 2016

Khalid Masud Ansari

C.R. No. 1/30936/6

CORPORATE GOVERNANCE REPORT

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

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

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

Board of Directors

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

During the Annual General Assembly held on 25/3/2015 two board members were elected to fill two vacant seats until the end of the mandate of the current board on the date of the Annual General Assembly on 27/3/2016. The Board is responsible for overseeing the Bank's management and business affairs and makes all major policy decisions of the Bank.

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

- Appointing key executives with integrity, technical and managerial competence and appropriate experience, and deciding their compensation package
- Overseeing succession planning and replacing key executives when necessary
- Reviewing key executive and Board remuneration packages and ensuring such packages are consistent with the Bank's corporate values and strategy;
- Ensuring a formal and transparent Board nomination process
- Effectively monitoring and evaluating management's performance in implementing agreed strategy and business plans, and ensuring that appropriate resources are available

- Approving budgets, reviewing performance against those budgets and deciding on the future strategies and plans
- Meeting regularly with senior management and respective Board Committees to establish and approve policies and review key developments
- Identifying, understanding and measuring the significant risks to which the Bank is exposed in its business activities
- Independently assess and question the policies, processes and procedures of the Bank, with the intent to identify and initiate management action on issues requiring improvement (i.e. to act as checks and balances on management). Procedures may be defined to appoint advisors or external experts to assist Board members in effectively discharging their responsibilities.

Composition & Classification of the Board

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

Sl. No.	Name of Director	Category	Represents	No. of Other Directorship
1	Sayyid Amjad bin Mohamed Al Busaidi	Non- Executive	Independent	2
2	Sheikh Abdulaziz bin Saud Al Khalili	Non- Executive	Independent	0
3	Mr. Musabah bin Saif Al Mutairy	Non- Executive	Royal Guard Pension Fund	3
4	Sheikh Yousuf bin Yaqoob Al Harthy	Non- Executive	Independent	0
5	Sheikh Saif bin Hilal Al Mawali	Non- Executive	Independent	0
6	Sheikh Muadh bin Salim Al Ghazali	Non- Executive	Independent	4
7	H.E. Sheikh Ahmed bin Saif Al Rawahi	Non- Executive	Independent	0
8	Dr. Said bin Mohammed Al Saqri	Non- Executive	Independent	0

Profile of Directors

Sayyid Amjad Mohammed Al Busaidi - Chairman

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

H.E. Sheikh Ahmed bin Saif Al Rawahi - Vice Chairman

Starting his career in 1978 as the Deputy Director of Finance at the Diwan of Royal Court, 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 35 years of experience in Oman's government and the private sectors, Al Rawahi has served as Chairman and Member of various committees including the Diwan Pension Fund, the Y2K Task Force and the Royal Court Affairs Budget Committee. He was the recipient a string of commendations from various government bodies throughout his tenure topped by the third Order of Oman from His Majesty Sultan Qaboos bin Said for his exemplary work in civil society in 1995.

A holder of Bachelor of Science degree from the University of California in 1978, Rawahi also holds an MBA from The American University in Washington D.C. and a public finance budgeting diploma from Harvard University.

Sheikh Abdulaziz bin Saud Al Khalili – Member

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

Mr. Musabah bin Saif Al Mutairy – Member

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

Sheikh Muadh bin Salim Al Ghazali – Member

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

Dr. Said bin Mohammed Al Saqri - Member

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

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

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

Sheikh Saif bin 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 for the regional office for MENA and Near East region. He has been a member at the FTA negotiations between Oman and USA along with several other key positions in related fields. Sheikh Al Mawali's experience also spans across the private sector as he has successfully overseen the development of various real estate projects in Oman. He has received a Bachelor's degree in Economics from Arkansas University in USA.

Sheikh Yousuf bin Yaqoub Al Harthy – Member

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

Meetings and Remuneration of the Board

The Board meets regularly, to discharge its duties, monitor the executive management, and exercise necessary control over the Bank's functioning. The Board conducts its business in formal meetings. In Board meetings, the "majority" is computed as the absolute majority of the Directors present in person. During the financial year ended in 31/12/2015, the board has conducted seven 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 2015							
Name of Director	29/1/2015	26/2/2015	28/4/2015	28/7/2015	14/9/2015	26/10/2015	16/12/2015
Sayyid Amjad bin Mohamed Al Busaidi	✓	✓	✓	x	✓	✓	✓
Sheikh Abdulaziz bin Saud Al Khalili	✓	✓	✓	x	✓	✓	✓
Mr. Musabah bin Saif Al Mutairy	✓	✓	✓	✓	✓	✓	✓
Sheikh Yousuf bin Yaqoob Al Harthy	✓	✓	✓	✓	✓	✓	✓
Sheikh Saif bin Hilal Al Mawali	✓	✓	✓	✓	✓	✓	✓
Sheikh Muadh bin Salim Al Ghazali	✓	✓	✓	✓	✓	✓	✓
H.E. Sheikh Ahmed bin Saif Al Rawahi	✓	✓	✓	✓	✓	✓	✓
Dr. Said bin Mohammed Al Saqri	x	✓	✓	✓	✓	✓	✓

Board of Director has received an amount of RO 49,200 as sitting fees for the year ended December 31, 2015, which included the Board sub-Committees, where the sitting fees per each Director did not exceed RO 10,000 as per the guidelines of CMA.

The total remuneration received by the top 5 Executives in Management during the year ended December 31, 2015 is 804,721 RO

Committees of the Board

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

Board Executive Committee

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

Executive Committee	
Name of Members	No. of Meetings Attended
Musabah Saif Musabah Al-Mutairy	4
Sheikh Saif Hilal Nasser Al Mawali	4
Sheikh Ahmed Saif Al Rawahi (Chairman)	4
Dr. Said Mohammed Al Saqri	3
Total Number of Meeting Held During the year:	4

Board Audit Committee

The main functions of the Audit Committee are to assist the Board in discharging its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct. Accordingly, to ensure the balance, transparency and integrity of published financial information.

The Audit Committee also reviews the effectiveness of the bank's internal financial control and risk management system; the effectiveness of the internal audit function; the independent audit process including recommending the appointment and assessing the performance of the external auditors; the Bank's process for monitoring compliance with local laws and regulations affecting financial reporting and, if applicable, its code of business conduct.

Audit Committee	
Name of Members	No. of Meetings Attended
Yousuf Yaqoob Hamed Al Harthi-Chairman	4
Musabah Saif Musabah Al-Mutairy	4
Sheikh Saif Hilal Nasser Al Mawali	4
Total Number of Meeting Held During the year:	4

Board Remuneration & Nomination Committee

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

Remuneration & Nomination Committee	
Name of Members	No. of Meetings Attended
Sheikh AbdulAziz Saud Ali Al Khalili	3
Sheikh Muadh Salim Ahmed Al Ghazali.	3
Sheikh Ahmed Saif Al Rawahi	3
Total Number of Meeting Held During the year:	3

Board Governance Risk Committee

The Board Governance Risk Committee's (BGRC) 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 BGRC exercises the authority and power delegated to it by the Board. The BGRC's function is one of oversight, recognising that Top Management is responsible for executing the Bank's risk management policies. BGRC will neither be involved in the day-to-day management of risk nor in assessing or approving single transactions regardless of amount or risk level.

Risk Committee	
Name of Members	No. of Meetings Attended (BGRC) meetings
Sayyid Amjad Mohamed Ahmed Al-Busaidi - Chairman	2
Sheikh Muadh Salim Ahmed Al Ghazali.	2
Sheikh AbdulAziz Saud Ali Al Khalili	2
Total Number of Meeting Held During the year:	2

Major Shareholders

Bank Nizwa incorporated with a capital of RO 150 million. The Bank's shares are listed on the Muscat Securities Market. The Shareholders, holding more than 5% as on December 2015 are tabulated hereunder:

Major shareholders	%
Civil Pension Fund	6.874
Al Ghadeer Investment	6.667
Diwan of Royal Court Pension Fund	5.000

Bank Nizwa Share Price Movements

DATE	HIGH	LOW	CLOSE	AVERAGE INDEX MSM
Jan-15	0.082	0.077	0.080	6,470.97
Feb-15	0.094	0.080	0.089	6,647.68
Mar-15	0.090	0.080	0.086	6,351.71
Apr-15	0.080	0.078	0.078	6,295.82
May-15	0.078	0.072	0.075	6,357.14
Jun-15	0.075	0.072	0.073	6,458.25
Jul-15	0.078	0.073	0.074	6,500.56
Aug-15	0.074	0.062	0.065	6,197.17
Sep-15	0.065	0.061	0.061	5,772.40
Oct-15	0.081	0.062	0.080	5,898.79
Nov-15	0.081	0.072	0.072	5,820.09
Dec-15	0.075	0.070	0.070	5,435.61

Source: BLOOMBERG

Communication with Shareholders and Investors

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

Compliance with Regulatory Requirements

During the Calendar Year 2015, the Central Bank of Oman levied a monetary penalty of RO. 7,500/- (Rial Omani Seven Thousand Five Hundred Only) on account of noncompliance related to some operations issue(s). 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.

Dividend Policy

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

Sharia Supervisory Board

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

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

The main roles and responsibilities of the SSB

- Sharia Compliance department (SCD) is an element of the governance structure as established in Bank Nizwa and approved by the 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 remains with the BOD and the Management of the Bank.
- SCD reports functionally directly to SSB reports in parallel to CEO with respect to administrative issues. SSB through SCD provides copies of its Sharia decisions and resolutions to Board of Directors and CEO because management is responsible to assure that Sharia resolutions are executed in the transactions and all products and services of the bank. SSB reports its findings directly to the general assembly of shareholders at the end of each year.
- Sharia Compliance Department performs its functions based on the 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. Meanwhile, Sharia non-compliance risk management report is done on monthly basis to record and evidence any Sharia non-compliant event, and suggested.
- Sharia Audit unit executes continuous audit for transactions of all departments. Its observations and findings are reported by Sharia Audit report to SSB which is also conveyed and discussed with Management, with documentation of Management responses in addition to recommending action plan for each observation.
- To ensure Sharia compliance in execution, all transactions are executed according to Standard Operating Procedures prepared by the Operations Department and approved by the concerned department heads including Sharia. Sharia audit uses check lists as per SSB Sharia guidelines to meet Sharia requirement and ensure that the SOPs are adhered to during execution.

Schedule of attendance for Sharia Supervisory Board members for the year 2015:

Name of Director	Position	01/03/2015	03/05/2015	29/07/2015	18/11/2015
Dr. Abdul Sattar Abu Ghuddah	Chairman	✓	✓	✓	✓
Sheikh Dr. Mohammed Al-Gharbi	Member	✓	✓	✓	✓
Sheikh Ibrahim Al Sawwafi	Member	✓	✓	✓	✓

Details of attendance in Sharia executive committee meeting held during the year 2015:

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

Details of Sharia Board Members remuneration during the year 2015:

No	Sharia Board Member	Total Remuneration
1	Sheikh Abdul Sattar Abu Ghuddah	16,529
2	Sheikh Ibrahim Al Sawwafi	17,647
3	Sheikh Dr. Mohammed Al Gharbi	17,647
	Total Amount	**51,823**

Sharia Supervisory Board Members Profile

SH. Mohammed Taqi Usmani (Ex-SSB Chairman – Until 03/2015)

Sheikh Muhammad Taqi Usmani joined Bank Nizwa as the Chairman of the Sharia Supervisory Board in July 2012. Sheikh Usmani is an expert in Islamic Finance, Islamic jurisprudence, research and banking

In addition to his role as Chairman of the Bank Nizwa Sharia Board, Sheikh Usmani also serves as Chairman of the Sharia Supervisory Board Standard of Accounting and Auditing Organization for Islamic Financial Institutions in Bahrain (AAOIFI). He also sits on the Sharia Board at several other institutions around the world including the International Islamic Fiqh Academy in Jeddah, and the Islamic Fiqh Academy of Muslim World League in Makkah, KSA.

During his tenure, Usmani pioneered the concept of Islamic Banking in Pakistan when he participated in establishing the Meezan Bank in 1997. Today, he is considered one of the most influential Islamic authors outside the Middle East with published works in Arabic, Urdu and English. In 2004, Usmani was presented with an award in recognition of his lifetime service and achievement in Islamic Finance by United Arab Emirates Vice President and Prime Minister Mohammed bin Rashid Al Maktoum during the annual International Islamic Finance Forum (IIFF).

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

Due to health reasons, Sheikh Usmani apologized from renewing his Sharia advisory contract with Bank Nizwa as of the end of March 2015.

DR. Abdul-Sattar Abdul-Kareem Abu-Ghuddah (Deputy Chairman - Currently 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 Organization of Islamic Assembly in Jeddah, KSA, and a member of the Sharia Supervisory Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain. He is currently the Chairman and a member of the Sharia Supervisory Boards of a number of Islamic Banks and institutions in the region including the Sharia Supervisory Board of the Central Bank in Bahrain, and Dow Jones index, USA.

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

Dr. 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 Rashid Al-Gharbi (Member)

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

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

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

Profile of Management Team:

Dr. Jamil El Jaroudi, Chief Executive Officer – Lebanese national with over 40 years business experience. Dr. El Jaroudi started his gulf experience in the 1970s as a consultant with Booz Allen Hamilton, in the UAE and the Kingdom Of Saudi Arabia, after which he held various senior executive roles with Al Mawarid Group, Saudi Arabia. In 1996 he coestablished the Middle East Capital Group in Lebanon, the region's first merchant bank with a pan-Arab focus. Subsequent to this Dr. El Jaroudi held senior positions with DMI Trust, Islamic Investment Company of the Gulf and Shamil Bank, and was involved in the establishment of Arab Finance Bank in Lebanon and most recently Elaf Bank in Bahrain, where he was the Chief Executive Officer.

Dr. El Jaroudi holds an MBA from the Ivy League school Columbia University, and a PhD in Finance from Kellogg School, Northwestern University, USA. Among other activities for NGOs and charitable organizations, he is a Board member of the Beirut Islamic University, and a member of the Board of Trustees of the Lebanese American University Institute of Family Businesses. Just recently, Dr. Jaroudi was nominated on the Governing Council of INCEIF, the Global University of Islamic Finance in Malaysia.

Dr. Ashraf Nabhan Al Nabhani, General Manager Corporate Support, Bank Nizwa Oman - Omani National; Dr. Ashraf Al Nabhani is a veteran in the field of Banking and Finance and holds a PHD in Financial Markets from the University of Cambridge. He joined Bank Nizwa from the College of Banking and Financial Studies where he held the position of Dean. He has also been involved with Bank Nizwa in the past in the capacity of a Founding Committee member that steered the setting up of the Bank. Dr. Ashraf has also worked for several years in the Ministry of Finance & Economy. He was later assigned to establish the Capital Market Authority. He has been on the Board of a number of established listed companies. Dr. Ashraf Al Nabhani currently also holds the position as the chairman of Muscat Securities Market and he was appointed recently a board member of the College of Banking and Financial Studies.

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

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

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

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

Dr. Yousuf Janahi, Assistant General Manager Information Technology – Bahraini national; Has more than 25 years of experience in the field of banking and finance. Prior to joining Bank Nizwa, Mr. Al Janahi worked for five years with Elaf Bank as Head of IT. He started his career as Head of Systems for Bahrain Islamic Bank in 1990 and moved to Bank of Bahrain and Kuwait as supervisor in 1988 and Assistant manager for National Bank of Bahrain in 1996. He holds PhD (The Practice of International Transfer Management: Strategic Management in Multinational Corporations).

Asad Batla - Assistant General Manager Retail Banking, – Australian national and has an MBA in Finance and Marketing from LUMS and B.S in Electrical Engineering from Rutgers University, USA. He has over 20 years of industry experience having worked in Banks like Citibank where he was Senior Vice President Cards in South Korea, ANZ Banking Group as Head of Cards Portfolio in Australia, Barclays Bank as Retail Banking Director Egypt and more recently Islamic banks where he served as Head of Retail Banking Noor Bank, UAE, Group Head Retail Banking Ajman Bank UAE. Over these years Asad has managed various regional and senior country positions, working across and managing geographies like, Korea, Indonesia, Philippines, Pakistan, Middle East and Australia. Over the last two decades his experience has been in establishing businesses, growing them and in a few cases managing in an economic downturn. Asad has managed complex P&L businesses in many countries and large scale bank integrations over his career. In the last seven years he has played instrumental part in establishing and running of two successful Islamic Banks. Noor Bank of UAE and the most recent one is our Bank Nizwa, the first Islamic Bank of Oman. Asad is currently AGM Retail Banking Heading the Retail Banking division of Bank Nizwa.

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

The shareholders of the Company appointed KPMG as the Company's auditors for the year 2015. KPMG is a leading Audit, Tax and Advisory firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG in Oman employs more than 180 people, amongst whom are 4 Partners, 7 Directors and 21 Managers, including Omani nationals. KPMG is a global network of professional firms providing Audit, Tax and Advisory services. KPMG operates in 150 countries and has more than 174000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOGs). During the year 2015, KPMG billed an amount of RO 35,500 towards professional services rendered to the Company (RO 34,150 for audit and RO 1,350 for tax and other services)"

Declarations

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

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

MANAGEMENT DISCUSSION & ANALYSIS REPORT

Dr. Jamil El Jaroudi
Chief Executive Officer

(For the financial period ended 31st December 2015)

The Management Discussion & Analysis Report is a detailed overview of Bank Nizwa's business for the third financial year which covers the period from January 1st 2015 to December 31st 2015.

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 three years. With two full-fledged Islamic banks and six Islamic windows, Sharia compliant banking assets accounted for 5.5% of Oman's total banking assets in 2015 and are projected to reach 10% by 2018. The financing assets of Islamic Banks have grown to OMR 1.4 Billion (43% since December 2014) and deposit has grown to OMR 1.2 Billion (90% since December 2014) as of September 2015. A key contributor to this unprecedented traction in the market has been the increased awareness on the benefits of Islamic banking amongst individuals and businesses alike; a responsibility Bank Nizwa has taken upon itself to continue to lead.

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

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. This is a challenging juncture for the Islamic Banking industry and overall economy with the low level of oil prices. However, the Government will withstand these challenges with government economic diversification efforts and the contribution from the private sector which will fuel the Country's growth.

COUNTRY ECONOMIC & BUSINESS ENVIRONMENT

Oman's sovereign credit profile displays a number of strengths. Real GDP growth will likely remain positive, although it will slow to an average 2% to 3% in 2016 - 17, down from a previously higher growth trend of 4.9% on average between 2005 and 2014. Offsetting this strength to some degree is the likely sharp fall in nominal GDP this year from the collapse in oil prices. This will crimp government and private sector revenues. Even factoring in the reduced government revenues and resulting in higher government debt over the next one to three years, however Oman's debt metrics will still compare favorably with other regional economies.

The sluggish global growth along with the sharp decline in oil prices of about 45% since September 2014, have adversely impacted Oman's output growth rates. This has an adverse impact on the Banking sector of Oman as it relies on the government as a major contributor in the growth of Banking assets and funding. The Omani government has substantial financial assets, as well as deposits in the domestic banking system. However, with the increase in oil production, efforts to cut back spending for costly subsidies and broader economic reforms will improve the situation.

Oman's current economic situation remains relatively stable; however downside risks have increased as a result of the decline in international oil prices. The Omani economy is expected to expand by an average of 2.4% of GDP in 2016-17.

OUTLOOK FOR THE BANKING SECTOR

Declining oil prices and slow economic growth will result in weaker credit growth for banks in addition to a moderate pressure on funding and earnings. However, key indicators from the banking sector illustrate a decent level of growth in total assets. Banks in the system continued to maintain capitalization levels well above the regulatory requirements which indicate the soundness and stability of the banking sector. The non-oil sector will continue to grow supported by private sector investment. The Country has a strong ability to progress with its investment programs, which will further support private consumption and non-oil exports as the population and capacity continue to grow.

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 center, ATM/ CCDMs, mobile application, and internet banking.

Constituting the largest segment of the business, Retail Banking Division, serves the financial needs of individuals across the country providing them with the necessary means to lead financially secured lifestyles through innovative 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.

CRITICAL OBJECTIVES ACCOMPLISHED

At Bank Nizwa, we are on the path of moving from good to great. Ambition, commitment and discipline will take us there, propelled by the power of our strategy and the passion of our people. Our values are uncompromised, and the value we deliver continues to rise.

In the year 2015, the Bank achieved the following critical objectives:

1. **Developed 2020 strategy for Five Years:** Bank Nizwa continues to operate with a clear vision, and mission that reaffirms the Bank's commitment to create value for all its stakeholders. Building on our vision and mission, the Bank has revised its strategy to focus on the following core principles:

    1. Deliver an excellent customer experience through technological breakthrough
    2. Enhance value for our Employees, Customer and Shareholders
    3. Increase our share in the Market through product innovation and efficiency
    4. Diversify revenue streams to improve financial performance
    5. Build a high performance work environment

2. **Improved Financial Performance:** The bank demonstrated an impressive financial and operational performance driven by a combination of factors including exceptional performance across all business functions. We continued to improve our financial performance which is evident from the growth in both total revenue and pre-provision operating breakeven in the month of December 2015. Despite a competitive environment, Bank Nizwa has been able to achieve its financial targets of operational breakeven.

3. **Enhanced Sharia Compliant Product Portfolio:** Supported by our Sharia Supervisory Board, the Bank has a wider portfolio of customized solutions for Retail, Corporate, Commercial and SME customers. The products and services offered are in full-compliance with Sharia principles and are guided by the Islamic Banking Regulatory framework issued by the Central Bank of Oman, as well as the Sharia standards issued by the Auditing and Accounting Organization for Islamic Financial Institutions in Oman.

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

5. **Processes and Technology:** The Bank successfully completed several technology projects and integrated advanced technologies and innovations into the business in an effort to improve processes and automation to ensure customer service levels remain consistently high.

6. **Customer Segments, Products, and Services:** The Bank continued engaging with potential customers across various segments, raising awareness on the benefits of Islamic banking by showcasing its Sharia compliant innovative products and services. A key achievement in 2015 was the launch of our Mobile App and Credit Card which were well received and appreciated by our existing customer base.

KEY DEVELOPMENTS IN CORE SEGMENTS

Retail Banking

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

In 2015 the Retail Banking division launched a dedicated Mobile Banking App to complement its existing internet banking facility for Retail Banking customers. These digital channels provide convenience to customers and allow them to access their bank accounts from anywhere, anytime at their convenience. Towards the end of year, the Bank also launched the widest range of Sharia Compliant Credit Cards packed with a vast range of privileges and offers that suit customers' needs and aspirations.

During the year, Retail Banking further consolidated its position as the leading Islamic Bank in Oman by increasing its number of accounts from approximately 32,000 to over 51,000, with a 57% increase in Retail deposits and 104% growth in assets. The Bank also expanded its branch network with the opening of new branches at Buraimi, bringing its total retail footprint to 11 branches in geographically-strategic locations across Oman to not only get closer to customers but also gain in-depth understanding of their needs.

Customers of Bank Nizwa continue to enjoy free transactions across the entire national ATM network. Internationally, customers are able to use their Debit Cards and Credit Cards at numerous ATM / Point-of-Sale locations which are part of the MasterCard network.

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

Customers are able to interact with the Bank through multiple channels which include strategically located branches, a direct sales team, a state-of-the-art Call Center, mobile banking and Internet banking with a seamless experience across the various channels. Each of the Bank's branches is fitted with the latest Automated Teller Machines (ATMs) and Cash & Cheque Deposit Machines (CCDMs). In 2016, the Bank aims to further expand its network and customer-base through value-added services and offering a rewarding and enriching experience.

Wholesale Banking

In 2015, the Wholesale Banking Division expanded from four to six business lines. The Corporate and Commercial Banking department split into two departments, namely (1) the Corporate Banking department and the (2) SME and Commercial Banking department, as the growth in assets demanded the Bank to have more focus in each of these businesses. The Bank also introduced Project Finance and Syndications as a new standalone department to cater for more complex transactions and project finance. Global Markets department, Investment Banking department and International Banking department make up the remaining of the sextet of departments within the Division.

Corporate Banking

Corporate Banking continued its substantial growth from the last quarter of 2014 but experienced a slow down during the second half of 2015 due to the need to adhere to regulations pertaining to industry limits and ratios, especially those related to real estate. It was expected that the Bank's tremendous rate of growth would eventually come into the range where limits imposed on banks would become relevant. The Bank however, had plans to divert into other types of industries especially in project finance and the deal pipeline remains at a healthy level. However, there would possibly be some challenges where the asset growth may not be in tandem to the facilities approved, which is the norm for project finance cases as the disbursement schedule are often spread over a period of time. In terms of product development, the Bank launched a funded working capital facility for clients based on the concept of Wakala during the year under review.

SME and Commercial Banking

The SME and Commercial Banking Department is a new 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 customized products, a variant of the existing products, to suit the particular needs of SME and commercial clients.

Project Finance and Syndications

Project Finance and Syndications represents a new business function under Wholesale Banking, and it was launched in 2015 to undertake more complex transactions related to project finance. One such notable transaction was the Strategic and Precious Metals Processing LLC FZE based in Sohar related to the production of antimony, which involved six different partners. The Bank has several other transactions in the pipeline of a similar nature and expects these transactions to materialize in 2016. This area of business is crucial not only to the Bank, but also for the industry and mainly in infrastructure and utilities sector, where the Bank offers 100% Sharia-compliant solutions.

Global Markets

The focus of Global Markets has switched from managing excess liquidity coming from capital funds during the inception days of the Bank, to more transactional dealings with clients in the liquidity and foreign exchange market. During the year under review, the Global Markets function has also secured substantial amount of funding from the market to help complement deposit growth for the Bank. The function also introduced "foreign exchange forward" under the wa'ad concept to its clients, which further enhanced its range of offerings, now clients can transact in the forward market in a Sharia-compliant way as well as for their hedging needs. Global Markets have also contributed to the Bank's revenue stream via management of a Sukuk portfolio, also newly-introduced in 2015. As the market for such products picks up in terms of volume traded and new issuances, Global Markets aims to be ready to play its next role as a market-maker in the local market in the near future.

Investment Banking

Investment Banking has done tremendously well within its scope to complement the Bank's income in 2015, through income-generating investments in several sectors, yielding superior short-term and high expected long-term returns. Investment Banking will continue to expand and has embarked on advisory services as well as funds creation. The contribution from Investment Banking is expected to become more prominent in the future, and would also assist in providing new revenue streams other than the credit exposures.

International Banking

International Banking is managing all the financial institutions and correspondent banking relationships. To date, the Bank has established its network with almost 100 banks locally and abroad, with approved limits to deal with over 80 banks in 44 countries worldwide. International Banking will continue to look for opportunities to establish new relationships to support the growth of the Bank especially in the area of international trade finance.

Risk Management

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

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

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

As part of the Bank's continuous improvement initiative, the Bank reviewed existing approved risk policies and attuned them to changes in the regulatory and economic environment.

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. During the period in review, the Bank initiated the implementation of Basel III Liquidity and Capital Standards to meet regulatory requirements and international best practices.

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

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

Raising Awareness

From the very beginning, Bank Nizwa has taken it upon itself to empower communities with the knowledge and understanding of the benefits of Sharia-compliant solutions, presenting them with new, untapped opportunities. The Bank launched a country-wide roadshow called 'Islamic Finance Knowledge Series'. The knowledge series were launched as part of the commitment to empower local communities with knowledge on Islamic finance. They involved a series of workshops and round table discussions at universities, public sector entities and the private sector. Throughout 2015, the bank was successful in reaching out to over 1000 students at universities and colleges around the Sultanate. The series were also successful in hosting workshops for groups of teachers form the ministry of education and arranging for round table discussions and workshops for members of the media.

The bank also launched its flagship industry initiative, the Islamic Banking Knowledge Forum, in 2014. Attracting participants from across the sectors, it was designed to promote cross industry collaboration, dialogue and the sharing of best practices. Held again in 2015, the second edition proved to be even bigger and focused on the region's economic outlook. Attended by more than 150 government and public sector representatives, the 2nd edition served as a platform for industry experts to address the challenges and opportunities within the sector, as well as the bigger picture of the regional economic climate.

The Bank continuously utilizes various communication platforms to ensure it raises awareness on Islamic finance among a multitude of audiences. These include the Bank's social media channels in addition to a strategic partnership with Al Watan newspaper to publish a monthly column on Sharia compliant banking products and services.

In 2016, Bank Nizwa will continue its efforts by raising awareness on Islamic Finance through various learning programs at key educational institutions and collaborations with various organizations to reinforce the beliefs and practices of social responsibility.

Corporate Social Responsibility

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

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

Awards & Accolades

Since inception, Bank Nizwa has won a number of prestigious awards and accolades for its role in the development of Islamic banking in Oman. In 2015 alone, it won more than four awards. In addition to being named the 'Best Performing Islamic Bank in Oman' by WIBC, the Bank received the 'Best Islamic Bank in Oman' title at the 6th annual Islamic Finance Awards, the 'Best Employee Retention & Motivation Program' award at the annual Middle East Call Centre Awards and was recently honored with the 'Strongest Islamic Retail Bank in Oman' title at the 7th World Islamic Retail Banking Conference.

Sharia Process

Compliance to Sharia principles and standards are inherently built into the Banks' products and services by following a framework comprised of several key elements listed below that sets the standards and practices that ensures compliance to these standards and practices:

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 concepts which are permitted in Oman for Islamic banks.

2) AAOIFI Standards

Sharia, accounting and governance standards are published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and mandated by CBO; represent a major reference for 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 Abou-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 accommodate for current banking 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 before execution 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. 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 maintained a sustained level of strong performance. In addition, a "Succession Planning" program was initiated with the aim of preparing and developing the skills of a selected group of high-potential employees to fill key positions within the organization.

In 2015, the Bank initiated and implemented the Human Resources Management System (HRMS) which includes modules related to recruitment, management and training of staff, performance management and evaluation, compensation and benefits.

Recruitment

The Bank aims to be a leading institution in attracting the best and brightest talent in the local market by hiring exceptional fresh graduates that demonstrate great promise as well as attracting highly qualified and experienced employees with notable industry experience. To this end, the Bank implements precise and clear recruiting policies based on levels of educational and professional qualifications and the suitability of the specialization for vacant positions. Similarly, the Bank is fully committed to retaining key talents and Omanization which increased to 88.36 % during 2015.

Training & Development

Training is a vital component for preparing and equipping employees with the necessary skillsets to carry out various Islamic Banking activities and improve quality of service to customers. Therefore, training was a top priority for the Human Resources Department which facilitated and provided more than 700 training opportunities by conducting around 200 training programs for employees across all departments and branches in various fields of Islamic Banking, customer service and capacity development to promote innovative and forward thinking.

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

Information Technology

With its existing state-of-the-art and robust IT systems, Bank Nizwa continued its focus on providing maximum reliability and availability of information and systems. This is achieved by creating a highly secure environment with an advanced electronic delivery channel which includes features and services that are available in today's fast growing world.

During 2015 , the Information Technology department focused primarily on improving its e-channels' services and expanding customer delivery systems to provide customers with multiple alternative banking channels such as ATMs, CCDMs, Internet Banking, Mobile Banking and phone banking services to enrich the overall experience with the latest generation technology. Bank Nizwa's Internet Banking and Mobile Banking solutions conveniently and securely enable customers to conduct their banking transactions, generate their full account statements, transfer funds, open accounts and request cheque books in real-time, while on the move. Interactive Voice Response (IVR) services on these channels were also upgraded. Bank Nizwa also introduced a new innovative service called Miss Call and get your balance on your mobile as a first service in the Sultanate, which allowed customers to miss call a dedicated phone number and receive an instant message detailing their balance.

Going Forward

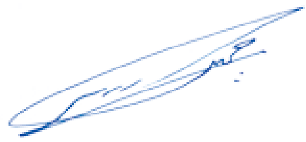
Given the competitive environment in the market, current economic challenges and the Bank's growth target, the Bank has to observe balanced management practices and remain vigilant to any unexpected changes in the operating environment.

We believe that through a prudent approach to business, supported by the Bank's highly competent management and strategy, Bank Nizwa is well-positioned to steer a steady path through the challenges of the current period and to achieve future growth strategy in order to compete with the peers.

Our strategic focus will remain on improving profitability as we grow. However, we believe a bank ought to be resilient as well as high-performing for its shareholders. We manage our balance sheet conservatively to protect shareholders interest. We will work more to diversify our portfolio across all economic sectors to minimize risk. 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 will continue to be creative and innovative in the sector, consistently setting ourselves apart from our peers.

We will continue to follow a strategy based on target growth and discipline to deliver better profitability and operating performance. We run a stable and resilient business — a strong, liquid and focused Sharia Compliant Bank — with a clear mission and vision.

In closing, I would like to thank the Central Bank of Oman, the Chairman, Sayyid Amjad Al Busaidi, the Vice Chairman H.E. Sheikh Ahmed Al Rawahi, the Board of Directors, the Executive Management team and all Bank Nizwa employees for their support, guidance and efforts as we continue our journey to grow our market share. I look forward to another exciting year ahead.



Dr. Jamil El Jaroudi
Chief Executive Officer

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

Tel 968 24709181
Fax 968 24700839

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

We have been engaged by the board of directors of Bank Nizwa SAOG to perform an independent reasonable assurance engagement on the management's report on control procedures relating to Shari'a compliance and governance structure and management's assertion on the design and operating effectiveness of these controls (together the "management Shari'a compliance and governance report"), as set out on pages 28 to 30, of Bank Nizwa SAOG (the "Bank") for the year / period ended 31 December 2015.

Management's responsibility

The Bank's management is responsible for the preparations 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 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, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information,* issued by the International Auditing and Assurance Standards Board. That standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the management Shari'a compliance and governance report is fairly presented and the controls are suitably designed and operating effectively. The engagement is also in compliance with 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 practitioners' 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.

KPMG

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/ period ended 31 December 2015. 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.

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 Shari'a Supervisory Board and Board of Directors;
   b. Review of policies and procedures;
   c. Review of selected job descriptions; and
   d. Review of reports prepared by the Shari'a Supervisory Board.
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 Compliance report;
6) On a sample basis testing of product specific controls listed in the Management Compliance report;
7) Review of pools management;
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 Compliance report.

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

KPMG

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 Central Bank of Oman, solely to assist the management to meet the requirement of clauses 2.5.1.22 to 2.5.1.24 of Title 2 of IBRF and circular no. BDD/IB/CB/2013/7941 dated 2 September 2013 issued by the Central Bank of Oman, 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.

03 March 2016

Khalid Masud Ansari

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 2015 for the period from 01/01/2015 to 31/12/2015.

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

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

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

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

1) the contracts, transactions and operations concluded by Bank Nizwa during the year 2015 for the period from 01/01/2015 to 31/12/2015, 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.

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 Abou 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, 20th of Rabie Awwal, 1437H; Corresponding to December 31, 2015.

KPMG

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

Tel 968 24709181
Fax 968 24700839

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK NIZWA SAOG

Report on the financial statements

We have audited the financial statements of Bank Nizwa SAOG ("the Bank"), set out on pages 33 to 73 which comprise the statement of financial position as at 31 December 2015, and statements of income, cash flows, changes in owner's equity and sources and uses of charity fund for the year ended 31 December 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the disclosure requirements of the Capital Market Authority, the Commercial Companies Law of 1974, as amended, and to operate in accordance with Shari'a rules and principles determined by the Shari'a Supervisory Board of the Bank and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by AAOIFI and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other legal and regulatory requirements

In our opinion, the financial statements of the Bank as at and for the year ended 31 December 2015, in all material respects, comply with:

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

In our opinion, the Bank is in a development stage and in its third year of operations has incurred a net accumulated loss of approximately RO 25 million. The ability of the Bank to achieve profitability depends on its ability to obtain reasonable market share.

3 March 2016

Khalid Masud Ansari

C.R. No. 1/30936/6

STATEMENT OF FINANCIAL POSITION

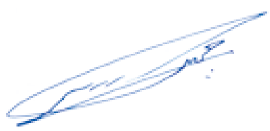
as at 31 December 2015

	Notes	2015	2014
		RO	RO
Assets			
Cash and balances with Central Bank of Oman	4	**14,625,542**	25,091,759
Due from banks and financial institutions	5	**3,315,151**	2,928,667
Inter-bank Wakala investments - net	6	**9,625,000**	55,710,675
Sales receivables and other receivables – net	7	**75,758,483**	51,151,947
Financial assets at fair value through equity	8	**18,011,950**	2,439,507
Financial assets at amortized cost	9	**7,000,000**	7,000,000
Investment in Ijarah asset - net	10	**-**	7,353,240
Investment in real estate – held for sale	11	**14,175,000**	14,175,000
Ijara Muntahia Bittamleek – net	12	**155,580,391**	59,339,054
Wakala Bil Istethmar – net	13	**37,647,530**	17,671,500
Property and equipment – net	15	**3,938,500**	4,478,525
Intangible assets	16	**1,856,817**	1,910,394
Other assets	17	**4,559,738**	3,855,663
Total assets		**346,094,102**	253,105,931
Liabilities, equity of unrestricted investment accountholders and owners' equity			
Liabilities			
Inter-bank Wakala	18	**16,940,000**	16,901,500
Customer Wakala		**44,054,775**	2,750,000
Customer accounts	19	**70,988,659**	48,690,180
Other liabilities	20	**13,092,963**	10,304,258
Total liabilities		**145,076,397**	78,645,938
Equity of unrestricted investment accountholders	21	**74,343,715**	42,416,731
Owners' equity			
Paid-up capital	22	**150,000,000**	150,000,000
Share premium	23	**2,091,192**	2,091,192
Investment fair value reserve	24	**(143,419)**	(34,389)
Accumulated losses		**(25,273,783)**	(20,013,541)
Total owners' equity		**126,673,990**	132,043,262
Total liabilities, equity of unrestricted investment accountholders and owners' equity		**346,094,102**	253,105,931
Net assets per share (RO)	35	**0.084**	0.088
Contingent liabilities and commitments	25	**86,936,235**	51,223,406

The financial statements were approved by the Board of Directors on 3 March 2016 and signed on their behalf by

Amjad Bin Mohammed AlBusaidi
Chairman

Ahmed Bin Saif Alrawahi
Vice Chairman



Jamil El Jaroudi
Chief Executive Officer

Notes to the financial statements from page 38 to 73 form an integral part of these financial statements.
Report of the Auditors – page 32.

STATEMENT OF INCOME

for the year ended 31 December 2015

	Notes	2015	2014
		RO	RO
Sales receivables and other receivables revenue	26	**3,494,079**	1,838,004
Ijara Muntahia Bittamleek and Ijara assets revenue	27	**5,198,990**	1,627,053
Profit from Wakala Bil Istethmar		**869,347**	111,615
Profit from inter-bank Wakala investments	28	**305,852**	898,441
Profit from financial assets at fair value through equity	29	**195,177**	1,061,969
Income from jointly financed investments and receivables		**10,063,445**	5,537,082
Less:			
Return on unrestricted investment accountholders before the Bank's share as a Mudarib	30	**(1,183,292)**	(355,624)
Bank's share as a Mudarib		**287,097**	112,015
Return on unrestricted investment accountholders		**(896,195)**	(243,609)
Profit paid on Wakala		**(416,594)**	(182,729)
Bank's share in income from investment as a Mudarib and Rabul Maal		**8,750,656**	5,110,744
Bank's income from its own investments and financing	31	**1,685,282**	1,620,134
Revenue from banking services	32	**1,377,192**	747,084
Foreign exchange gain – net		**99,834**	39,757
Total revenues		**11,912,964**	7,517,719
Operating expenses	33	**13,795,965**	13,245,015
General and specific provision	14	**2,004,537**	1,493,725
Depreciation and amortization	15&16	**1,580,855**	1,524,447
Total expenses		**17,381,357**	16,263,187
Loss before tax		**(5,468,393)**	(8,745,468)
Deferred income tax	34	**208,151**	1,036,707
Net loss after tax		**(5,260,242)**	(7,708,761)
Loss per share basic and diluted– (RO)	36	**(0.004)**	(0.005)

Notes to the financial statements from page 38 to 73 form an integral part of these financial statements.
Report of the Auditors – page 32.

STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2015

	Paid up capital	Share premium	Investment fair value reserve	Accumulated losses	Total
	RO	**RO**	**RO**	**RO**	**RO**
Balance as at 1 January 2015	**150,000,000**	**2,091,192**	**(34,389)**	**(20,013,541)**	**132,043,262**
Investment fair value reserve (net of tax)	**-**	**-**	**(109,030)**	**-**	**(109,030)**
Net loss for the year	**-**	**-**	**-**	**(5,260,242)**	**(5,260,242)**
Balance as at 31 December 2015	**150,000,000**	**2,091,192**	**(143,419)**	**(25,273,783)**	**126,673,990**

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

Notes to the financial statements from page 38 to 73 form an integral part of these financial statements.
Report of the Auditors – page 32.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

	2015	2014
Cash flows from operating activities	RO	RO
Net loss before tax	(5,468,393)	(8,745,468)
Adjustments for:		
Depreciation and amortization	1,580,855	1,524,447
General and specific provision	2,004,537	1,493,725
Other provision	-	49,915
Investment risk reserve	28,217	10,764
Profit equalization reserve	601,195	121,824
Cash flows used in operating activities before changes in operating assets and liabilities	(1,253,589)	(5,544,793)
Changes in operating assets and liabilities:		
Increase in sales receivables and other receivables	(25,098,145)	(34,943,856)
Increase in Ijara Muntahia Bittamleek assets	(97,721,087)	(46,100,250)
Decrease/ (increase) in Ijara Assets	7,427,515	(7,427,515)
(Increase)/ decrease in other assets	(501,139)	59,492
Increase in customer accounts	22,298,479	31,795,684
Increase in other liabilities	2,788,705	6,651,211
Net cash used in operating activities	(92,059,261)	(55,510,027)
Cash flows from investing activities		
(Investment)/ divestment in financial assets at fair value through equity	(15,695,666)	51,008,741
Increase in Wakala Bil Istethmar	(20,177,808)	(17,850,000)
Purchase of intangibles assets	(394,619)	(110,353)
Purchase of property and equipment	(592,634)	(1,107,091)
Divestment/(investment) in Inter-bank Wakala investment	15,592,500	(5,775,000)
Net cash (used in)/ generated from investing activities	(21,268,227)	26,166,297
Cash flows from financing activities		
Increase in unrestricted investment accountholders	31,316,980	32,310,940
Increase in customer Wakala	41,304,775	1,550,000
Increase in capital deposit with CBO	(57,109)	(45,997)
Increase in Inter-bank Wakala	13,475,000	-
Net cash generated from financing activities	86,039,646	33,814,943
(Decrease)/ increase in cash and cash equivalents	(27,287,842)	4,471,213
Cash and cash equivalents at the beginning of the year	51,135,429	46,664,216
Cash and cash equivalents at the end of the year	23,847,587	51,135,429
Cash and balances with CBO	14,625,542	25,091,759
Capital deposit with CBO	(253,106)	(195,997)
Due from banks and financial institutions	3,315,151	2,928,667
Inter-bank Wakala investment	9,625,000	40,212,500
Inter-bank Wakala less than 3 months	(3,465,000)	(16,901,500)
Cash and cash equivalent for the purpose of cash flow statement	23,847,587	51,135,429

Notes to the financial statements from page 38 to 73 form an integral part of these financial statements.
Report of the Auditors – page 32.

STATEMENT OF SOURCES AND USES OF CHARITY FUND

for the year ended 31 December 2015

Sources of charity fund	2015	2014
	RO	RO
Balance as at 1 January	-	994
Non-Islamic income for the year	**6,134**	4,071
Total source	**6,134**	5,065
Use of charity fund (Bank Muscat Charity Project Fund)	**6,134**	5,065
Undistributed charity fund as at 31 December	-	-

There are some deals were highlighted as a sharia non-compliance worth of OMR 8,404 profit which are still under the process of finalizing and making the final decision in which to be transferred or not.

Notes to the financial statements from page 38 to 73 form an integral part of these financial statements.
Report of the Auditors – page 32.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Nizwa SAOG ("the Bank") was registered in the Sultanate of Oman as a public joint stock company under registration number 1152878 on 15 August 2012. The Bank's shares are listed on the Muscat Securities Market "MSM" and its principle place of business is in Muscat, Sultanate of Oman.

The Bank's business operations commenced on 23 December 2012 and it currently operates through eleven 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 2015, the Bank had 321 employees (2014: 282 employees).

Bank address: P O Box 1423, Postal Code 133, Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements has been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia rules and principles as determined by SSB and applicable laws and regulations issued by CBO. In accordance with requirements of AAOIFI, matters that are not covered by FAS, the Bank uses guidance from the relevant International Financial Reporting Standard.

Statement of restricted investment accountholders, statement of Qard fund and Zakat are not presented as these are not applicable.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

The financial statements have been presented in Riyal Omani (RO) which is the functional currency of the Bank. Except as otherwise indicated, financial information presented in RO has been rounded off to the nearest Omani Riyal.

2.4 Use of estimates and judgements

The preparation of financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors including expectation of future events that are believed by the Bank to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below.

3.1 Cash and cash equivalents

For the purposes of the statement of cash flows cash and cash equivalents comprise cash in hand, non-restricted balance with the CBO, amounts due to / from banks and financial institutions, inter-bank Wakala, with remaining maturity of three months. Cash and cash equivalents are carried at cost at the reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

3.4 Wakala Bil Istethmar

Wakala Bel 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 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 recognized 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Investments *(continued)*

Debt type instruments at amortized cost

Debt type instruments which are managed on a contractual yield basis and are not held for trading and have been designated at fair value through statement of income are classified as debt type of instrument at amortized cost, such investment are carried at amortized cost less provisions for impairment in value. Amortization cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognized in statement of income when the investment is derecognized or impaired.

Investment in real estate

Investment in real estate is classified as held-for-use and is measured at fair value under the fair value model of Financial Accounting Standard No. 26 issued by AAOIFI. These are initially recognized at cost including transaction cost and subsequently measured at fair value. Unrealised gains arising from a change in the fair value of investment in real estate are recognised directly in equity under "Property fair value reserve" for the period in which it arises taking into consideration the split between the portions related to owners' equity and equity of investment accountholders. Unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the property fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the statement of income. In case there are unrealised losses relating to investment in real estate that have been recognised in the statement of income in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the statement of income.

The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the property fair value reserve account are recognised in the statement of income for the current financial period, taking into consideration the split between the portion related to owners' equity and the portion related to investment accountholders.

3.6 Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar assets) is derecognized when:

(i) the right to receive cash flows from the asset has expired;

(ii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires

3.7 Jointly and self-financed

Investments, financing and receivables that are jointly owned by the Bank and equity of unrestricted investment accountholders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by the Bank are classified under "self-financed".

3.8 Fair value for financial assets

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

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

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

For Sales (Murabaha) receivables the fair value is determined at the end of the financial period at their cash equivalent value.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 Fair value for non-financial assets

Market prices represent the fair value for non-financial assets. In case market prices are not available, they are assessed by taking average value of three assessments from experienced and certified parties.

3.10 Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives from the date the assets is brought in to use as follows:

	2015 Years	2014 Years
Furniture	5	5
Fixtures	10	5
Equipment	7	7
Motor vehicle	7	7
Computer hardware	5	5

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, and the impairment is recorded in the statement of income.

The useful lives of property and equipment are reviewed annually. If expected useful lives vary from the estimated ones, the change in estimate is adjusted prospectively.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

During the year the Bank has upgraded the useful life of its fixtures. This upgrade based on the expansion plan of the bank from where presence and location where the expected life period of utilization of assets will match same period, as a result, the expected useful life of fixtures has increased. The effect of these changes on actual and expected depreciation expense is as follows:

Amount in RO'	2015	2016	2017	2018	2019	Later
(Decrease) / Increase in depreciation	(149,268)	(447,804)	(447,804)	237,636	237,636	475,272

3.11 Intangible assets

Intangible assets are classified according to their useful life for a specified or unspecified period of time. Intangible assets with definite useful life are amortized over 10 years (2014: 5 years), and amortization is recorded in statement of income. For intangible assets with indefinite useful life, impairment in value is reviewed at the reporting date and any impairment in their value is recorded in statement of income.

Intangible assets arising from the Bank's operations are not capitalized and are recorded in the statement of income as incurred.

Any indications of impairment of intangible assets are reviewed at the reporting date; in addition, the useful lives of these assets are reviewed annually. If expected useful lives vary from the estimated ones the change in estimate is adjusted prospectively.

During the year the Bank has upgraded the useful life of its intangibles assets. This upgraded based on the new development and modification of the core banking system in the light of which recently done in the current system to meet the bank requirements, as a result, the expected useful life of intangible assets has increased. The effect of these changes on actual and expected depreciation expense is as follows:

Amount in RO'	2015	2016	2017	2018	2019	Later
(Decrease) / Increase in amortization	(112,932)	(338,796)	(338,796)	198,576	198,796	397,152

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.12 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be measured reliably.

According to the regulations of the Central Bank of Oman; Banks are required to have general credit loss provisions, at least equivalent to 1% of the total financing and interbank 0.5% categorized as Standard and Special Mention. However, for personal finance a minimum general loss provision of 2% of the Standard and Special Mention.

Central Bank of Oman regulations are followed for non-performing assets based on days past due any profit accrual on these non-performing assets is suspended as per the regulations.

3.13 Equity of unrestricted investment accountholders

Equity of unrestricted investment accountholders are recognized when received by the Bank and measured by the amount received during the time of contracting. At the end of the financial period the equity investment accountholders are measured at the book value.

3.14 Profit equalization reserve

Profit equalization reserve, this is the amount appropriated by the Bank out of Mudaraba income before allocating the Bank's share as investment manager (Mudarib), in order to maintain a certain level of return on investment for unrestricted investment accountholders and increase owners' equity.

3.15 Investment risk reserve

Investment risk reserve is the amount appropriated by the Bank out of profit share of the unrestricted investment accountholders after allocating the Mudarib share, in order to cushion the effects of the risk of future investment losses. The terms and conditions whereby investment risk reserve can be set aside and utilized are determined and approved by the Sharia Supervisory Board of the Bank.

3.16 Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Omani Riyal at the mid-rate of exchange at the reporting date. All differences are taken into the statement of income.

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

3.17 Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported when there is a Sharia or legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.18 Revenue recognition

Sales receivables and other receivables

Murabaha Profit from sales transactions is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised.

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

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

Wakala Bil Istethmar

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.18 Revenue recognition *(continued)*

Investment in Ijarah asset

Ijarah revenue is allocated proportionately to the financial periods in the lease term. Ijarah revenue is presented in the lessor's statement of income as Ijarah revenue. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, be allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made. Ijarah receivables are measured at their cash equivalent value.

Bank's share as Mudarib of income from equity of unrestricted investment accountholders

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

Fee and commission

Fees and commission income is recognised upon rendering the services.

Dividends

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

Income from investments

Income from investments is recognised when earned.

Rental income from investment in real estate

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

3.19 Return on equity of unrestricted investment accountholders

Investors' share of income is calculated based on income generated from joint investment accounts after deducting profit equalization reserve, Bank's share as Mudarib, fund provider and investment risk reserve. The investors' share of income is distributed to the investors based on average participation balance in the Mudaraba pool.

3.20 Employee benefits

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

The Company's obligation in respect of non-Omani terminal benefits, under an unfunded defined benefits retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods.

3.21 Directors' remuneration

Director's remuneration is calculated in accordance with the Commercial Companies Law of 1974 and approval of the Capital Market Authority (CMA).

3.22 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses including revenue and expenses that relate to transactions with any of the Bank's other components whose operating results are reviewed regularly by the management to make decisions about the resources allocated to each segment and asses 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.23 Taxation

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

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

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

Tax is calculated on figures calculated as per the requirements of International Financial Reporting Standards (IFRS).

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

Differences in reconciliation of figures accounted for under AAOIFI and IFRS are taken as permanent differences, if any.

3.24 Earnings prohibited by Sharia

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

3.25 Zakah

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

3.26 Sharia supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Sharia Supervisory Board of the Bank which meets quarterly and consists of 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

3.27 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

3.28 New standards, amendments and interpretations

New standards, amendments and interpretations effective from 1 January 2016

Amendments to FAS 27 "Investment Accounts" became effective as of 1 January 2016; the application of these amendments at the Bank level had no material impact on the disclosures in the Bank's financial statements.

The Bank is assessing the potential impact of the above stated amendments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

4 Cash and balances with Central Bank of Oman

	2015	2014
	RO	RO
Cash in hand	4,057,807	2,743,049
Balances with Central Bank of Oman	10,314,629	22,152,713
Capital deposit with Central Bank of Oman	253,106	195,997
	14,625,542	25,091,759

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

5 Due from banks and financial institutions

	2015	2014
	RO	RO
Local banks – local currency	712,268	61,719
Foreign banks – foreign currency	2,602,883	2,866,948
	3,315,151	2,928,667

6 Inter-bank Wakala investments - net

	Jointly-financed	
	2015	2014
	RO	RO
Local banks – local currency	-	20,000,000
Foreign banks – foreign currency – less than one year	9,625,000	16,940,000
Foreign banks – foreign currency – more than one year	-	18,865,000
General provision	-	(94,325)
	9,625,000	55,710,675

7 Sales receivables and other receivables - net

	Jointly-financed 2015	Self-financed 2015	Total 2015
	RO	RO	RO
Sales receivables - retail	77,255,912	1,635,217	78,891,129
Sales receivables - corporate	9,824,429	-	9,824,429
Istisna receivables - corporate	431,938	-	431,938
Ijara rent receivables - retail	2,634	-	2,634
Ijara rent receivables - corporate	253,022	-	253,022
Gross sales receivables and other receivables	87,767,935	1,635,217	89,403,152
Less:			
Deferred profit	(12,011,844)	(162,195)	(12,174,039)
General provision	(1,406,483)	(29,460)	(1,435,943)
Specific provision	(32,632)	-	(32,632)
Reserved profit	(2,055)	-	(2,055)
Net sales receivables and other receivables	74,314,921	1,443,562	75,758,483

	Jointly-financed 2014	Self-financed 2014	Total 2014
	RO	RO	RO
Retail	53,325,969	1,170,151	54,496,120
Corporate	6,164,482	-	6,164,482
Gross sales receivables and other receivables	59,490,451	1,170,151	60,660,602
Less:			
Deferred profit	(8,416,265)	(115,424)	(8,531,689)
General provision	(955,870)	(21,096)	(976,966)
Net sales receivables and other receivables	50,118,316	1,033,631	51,151,947

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

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

The general provision movement against sales receivables is as follow:

	2015	2014
	RO	RO
Balance at 1 January	976,966	291,344
General provision during the year	458,977	685,622
Balance at 31 December	1,435,943	976,966

The specific provision movement against sales receivables is as follow:

Specific provision during the year	32,632	-
Balance at 31 December	32,632	-

The reserved profit movement against sales receivables is as follow:

Profit reserved during the year	2,055	-
Balance at 31 December	2,055	-

Non-performing assets of sales receivables and other receivables, amounted to RO 130,524 with a percent 0.17% of net sales receivables and other receivables, as at of 31 December 2015 (31 December 2014: Nil).

Non-performing assets of sales receivables and other receivables after deducting profit reserve, amounted to RO 128,469 with a percent 0.17% of net sales receivables and other receivables, as at of 31 December 2015 (31 December 2014: Nil).

8 Financial assets at fair value through equity – Jointly financed

	Cost 2015	Fair value 2015
	RO	RO
International un-listed Sukuk	1,909,488	1,891,307
International listed Sukuk	502,650	501,126
Regional listed Sukuk	2,957,719	2,839,500
Regional un-listed funds	5,052,859	5,072,460
Regional un-listed Shares	333,938	285,579
Local listed Sukuk	7,363,600	7,363,600
Local listed shares	58,378	58,378
Total	18,178,632	18,011,950

	Cost 2014	Fair value 2014
	RO	RO
Regional listed Sukuk	2,090,683	2,072,510
Regional un-listed shares	333,905	309,787
Local listed shares	58,378	57,210
Total	2,482,966	2,439,507

9 Financial assets at amortized cost

	Self-financed	
	2015	2014
	RO	RO
Local listed Sukuk	7,000,000	7,000,000
Total	7,000,000	7,000,000

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

10 Investment in Ijarah assets - net

	Jointly-financed	
	2015	2014
	RO	RO
Investment in Ijarah assets	-	7,427,515
General provision	-	(74,275)
Net investment in Ijarah assets	-	7,353,240

Investment in Ijarah asset has been classified in accordance with AAOIFI standard "FAS 8" Ijarah and Ijarah Muntahia Bittamleek; "When the Bank rents out to a client asset that was previously rented by the Bank; the leased asset is presented in the lessor's statement of financial position under Investment in Ijarah assets".

Investment in Ijarah asset has been financed from the Mudaraba commingled pool and classified as jointly financed. All profits generated and costs in relation to this investment will be subject to distribution between the Bank and the unrestricted investment accountholders as per profit distribution policy of the Bank.

Total amount of master lease agreement between the Bank as lessee and the owner as lessor is RO 8,100,000.

During the year, the Bank received a request for early settlement and accordingly the entire amount has been settled as at the reporting date.

11 Investment in real estate – held for sale

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

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

The management believes that the fair value of investment in real estate is not materially different from its carrying value as at 31 December 2015. Further, the Bank has a plan for disinvestment by end of June 2016.

12 Ijara Muntahia Bittamleek - Net

	2015		
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	147,805,824	5,856,837	153,662,661
Accumulated deprecation	(6,222,838)	(247,616)	(6,470,454)
Net book value	141,582,986	5,609,221	147,192,207
Equipment			
Cost	12,470,957	-	12,470,957
Accumulated deprecation	(2,003,638)	-	(2,003,638)
Net book value	10,467,319	-	10,467,319
Total			
Cost	160,276,781	5,856,837	166,133,618
Accumulated deprecation	(8,226,476)	(247,616)	(8,474,092)
Net book value before general provision	152,050,305	5,609,221	157,659,526
General provision	(2,023,042)	(56,093)	(2,079,135)
Net book value after general provision	150,027,263	5,553,128	155,580,391

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

12 Ijara Muntahia Bittamleek - Net *(continued)*

	2014		
	Jointly-financed	Self-financed	Total
	RO	RO	RO
Real estate			
Cost	52,810,358	2,581,432	55,391,790
Accumulated deprecation	(1,605,522)	(117,663)	(1,723,185)
Net book value	51,204,836	2,463,769	53,668,605
Equipment			
Cost	6,830,000	-	6,830,000
Accumulated deprecation	(560,166)	-	(560,166)
Net book value	6,269,834	-	6,269,834
Total			
Cost	59,640,358	2,581,432	62,221,790
Accumulated deprecation	(2,165,688)	(117,663)	(2,283,351)
Net book value before general provision	57,474,670	2,463,769	59,938,439
General provision	(574,747)	(24,638)	(599,385)
Net book value after general provision	56,899,923	2,439,131	59,339,054

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

	2015	2014
	RO	RO
Balance at 1 January	**599,385**	138,382
Provision during the year	**1,479,750**	461,003
Balance at 31 December	**2,079,135**	599,385

13 Wakala Bil Istethmar - net

	2015	2014
	RO	RO
Wakala Bil Istethmar	**38,027,808**	17,850,000
General provision	**(380,278)**	(178,500)
Wakala Bil Istethmar - net	**37,647,530**	17,671,500

14 General Provision and specific provision movement

	2015	2014
	RO	RO
Balance at 1 January	**1,923,451**	429,726
General provision reversed during the year on Inter-bank Wakala	**(94,325)**	94,325
General provision made during the year on sales receivables and other receivables	**458,977**	685,622
General provision reversed during the year on investment in Ijara assets	**(74,275)**	74,275
General provision made during the year on Ijara Muntahia Bittamleek	**1,479,750**	461,003
General provision made during the year on Wakala Bil Istethmar	**201,778**	178,500
Specific provision made during the year on Ijara rent receivables	**32,632**	-
General and specific provision expense	**2,004,537**	1,493,725
Balance at 31 December	**3,927,988**	1,923,451

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15 Property and equipment - net

2015	Furniture & fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Total
	RO	RO	RO	RO	RO	RO
Balance at 1 January 2015	**3,915,943**	**693,837**	**86,350**	**1,575,004**	**264,708**	**6,535,842**
Additions	**92,045**	**24,044**	**75,751**	**79,948**	**320,846**	**592,634**
Transfers	**238,633**	**100,935**	**-**	**22,872**	**(362,440)**	**-**
Balance at 31 December 2015	**4,246,621**	**818,816**	**162,101**	**1,677,824**	**223,114**	**7,128,476**
Accumulated Depreciation at 1 January 2015	**(1,376,517)**	**(124,296)**	**(27,346)**	**(529,158)**	**-**	**(2,057,317)**
Depreciation expense	**(678,758)**	**(112,062)**	**(16,102)**	**(325,737)**	**-**	**(1,132,659)**
Accumulated Depreciation at 31 December 2015	**(2,055,275)**	**(236,358)**	**(43,448)**	**(854,895)**	**-**	**(3,189,976)**
Carrying value at 31 December 2015	**2,191,346**	**582,458**	**118,653**	**822,929**	**223,114**	**3,938,500**

2014	Furniture & fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Total
	RO	RO	RO	RO	RO	RO
Balance at 1 January 2014	3,503,554	446,787	71,500	1,246,048	160,862	5,428,751
Additions	121,145	133,155	14,850	283,452	554,489	1,107,091
Transfers	291,244	113,895	-	45,504	(450,643)	-
Balance at 31 December 2014	3,915,943	693,837	86,350	1,575,004	264,708	6,535,842
Accumulated Depreciation at 1 January 2014	(730,831)	(38,000)	(16,525)	(248,744)	-	(1,034,100)
Depreciation expense	(645,686)	(86,296)	(10,821)	(280,414)	-	(1,023,217)
Accumulated Depreciation at 31 December 2014	(1,376,517)	(124,296)	(27,346)	(529,158)	-	(2,057,317)
Carrying value at 31 December 2014	2,539,426	569,541	59,004	1,045,846	264,708	4,478,525

16 Intangible assets

	Software	Capital work in progress	Total
	RO	RO	RO
Carrying value at 1 January 2015	**1,845,025**	**65,369**	**1,910,394**
Additions	**187,831**	**206,788**	**394,619**
Transfers	**65,254**	**(65,254)**	**-**
Amortization	**(448,196)**	**-**	**(448,196)**
Carrying value at 31 December 2015	**1,649,914**	**206,903**	**1,856,817**

	Software	Capital work in progress	Total
	RO	RO	RO
Carrying value at 1 January 2014	1,919,824	381,447	2,301,271
Additions	25,478	84,875	110,353
Transfers	400,953	(400,953)	-
Amortization	(501,230)	-	(501,230)
Carrying value at 31 December 2014	1,845,025	65,369	1,910,394

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17 Other assets

	2015	2014
	RO	RO
Deferred tax asset (Note 34)	**2,937,242**	2,734,306
Profit receivable	**894,759**	730,281
Prepaid expense	**602,982**	285,160
Refundable deposits	**88,588**	88,588
Others	**36,167**	17,328
	4,559,738	3,855,663

18 Inter-bank Wakala

	2015	2014
	RO	RO
Local banks – foreign currency	**2,695,000**	11,126,500
Foreign banks – foreign currency maturing > 1 year	**13,475,000**	5,775,000
Foreign banks – foreign currency maturing < 1 year	**770,000**	-
	16,940,000	16,901,500

19 Customer accounts

	2015	2014
	RO	RO
Current accounts	**70,860,728**	48,525,291
Margin accounts	**127,931**	164,889
	70,988,659	48,690,180

20 Other liabilities

	2015	2014
	RO	RO
Payment orders	**8,220,721**	6,237,985
Creditors and accruals	**4,213,723**	3,364,082
Profit payable	**429,998**	641,197
Others	**228,521**	60,994
	13,092,963	10,304,258

21 Equity of unrestricted investment accountholders

	2015	2014
	RO	RO
Unrestricted investment accountholders	**73,597,787**	42,280,807
Investment fair value reserve	**(23,263)**	(3,855)
Profit equalization reserve	**727,885**	126,690
Investment risk reserve	**41,306**	13,089
	74,343,715	42,416,731

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.

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for the year ended 31 December 2015

21 Equity of unrestricted investment accountholders *(continued)*

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

The investment profits are distributed between owners' equity and unrestricted investment accountholders for the year 2015 and 2014 as follows:

	2015 Percentage	2014 Percentage
Unrestricted investment accountholders share	**50%**	50%
Mudarib share	**50%**	50%

The investment risk reserve at 10 percent is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount the bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner equity and unrestricted investment accountholders.

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

Account type	Participation factor		2015 average rate of return	2014 average rate of return
	RO	**USD**	**RO**	RO
Saving account	**20% - 40%**	**15%**	**0.30%**	0.28%
One month tenure	**46% - 50%**	**23%-25%**	**0.58%**	0.52%
Three months tenure	**51% - 55%**	**25.5% - 27.5%**	**0.74%**	0.61%
Six months tenure	**61% - 68%**	**30.5% - 34%**	**1.09%**	0.79%
Nine months tenure	**66% - 73%**	**33% - 36.5%**	**1.13%**	0.84%
One year tenure	**71% - 78%**	**35.5% - 39%**	**1.29%**	1.12%

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

21.2 Equity of unrestricted investment accountholders details

Account type	2015	2014
	RO	RO
Saving account	**62,347,468**	35,396,409
Investment accounts:		
One month	**61,290**	123,000
Three months	**813,397**	578,851
Six months	**2,296,533**	1,091,563
Nine months	**220,050**	59,500
One year	**7,859,049**	5,031,484
	73,597,787	42,280,807

22 Paid up capital

The authorized share capital of the Bank is OMR 300,000,000 and the issued and paid up capital is OMR 150,000,000, divided into 1,500,000,000 shares of a nominal value of OMR 0.100 each.

At 31 December 2015, no shareholders' of the Bank owned 10% or more of the Bank's paid up capital.

23 Share premium

This represent share premium of RO 2,091,192 on issue of the shares of the Bank through IPO. Expenses incurred on issuance are netted off.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

24 Reserves

Investment fair value reserve

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

Legal reserve

In accordance with the Commercial Company Law of 1974 annual appropriation of 10% of the net profit for the year is required to be made to legal reserve until such time that accumulated reserve equals to one third of the Bank paid up capital. Since the Bank is in losses no transfer has been made during the year.

25 Contingent liabilities and commitments

a) Contingent liabilities

	2015	2014
	RO	RO
Letters of guarantee	**19,181,545**	11,042,630
Letters of credit	**12,488,567**	6,440,944
Acceptances	**11,381,098**	8,110,622
Bills for collection	**189,174**	360,797
Total contingent liabilities (a)	**43,240,384**	25,954,993

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

	2015	2014
	RO	RO
Construction	**22,918,619**	13,756,876
Manufacturing	**20,139,460**	12,088,689
Service	**74,083**	44,468
Others	**108,222**	64,960
Total contingent liabilities (a)	**43,240,384**	25,954,993

b) Commitments

	2015	2014
	RO	RO
Unutilized limits	**43,695,851**	25,268,413
Total commitments (b)	**43,695,851**	25,268,413
Total contingent liabilities and commitments (a+b)	**86,936,235**	51,223,406

26 Sales receivables revenue

	Jointly-financed	
	31 December 2015	31 December 2014
	RO	RO
Retail	**3,078,638**	1,551,426
Corporate	**415,441**	286,578
	3,494,079	1,838,004

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27 Ijara Muntahia Bittamleek revenue and Ijara assets

	Jointly-financed	
	31 December 2015	31 December 2014
	RO	RO
Ijara Muntahia Bittamleek – real estate	**13,706,959**	3,090,890
Ijara Muntahia Bittamleek – equipment	**1,784,256**	507,925
Ijarah Assets	**182,226**	213,875
Depreciation on Ijara Muntahia Bittamleek assets	**(10,474,451)**	(2,185,637)
	5,198,990	1,627,053

28 Profit from inter-bank Wakala investments

	Jointly-financed	
	31 December 2015	31 December 2014
	RO	RO
Inter-bank Wakala local	**4,523**	33,624
Inter-bank Wakala foreign	**301,329**	864,817
	305,852	898,441

29 Profit from financial assets at fair value through equity

	Jointly-financed	
	31 December 2015	31 December 2014
	RO	RO
Gains on sale of Sukuk	**7,539**	472,137
Sukuk profit	**51,168**	589,832
Profit on funds investment	**136,470**	-
	195,177	1,061,969

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

	31 December 2015	31 December 2014
	RO	RO
Saving accounts	**239,848**	131,807
Investment accounts	**314,032**	91,229
Investment risk reserve	**28,217**	10,764
Profit equalization reserve	**601,195**	121,824
	1,183,292	355,624

31 Bank's income from its own investments and financing

	31 December 2015	31 December 2014
	RO	RO
Rental income from investment in real estate	**1,134,000**	1,134,000
Profit from financial assets at fair value through equity	**42,238**	67,980
Profit from financial assets at amortized cost	**360,694**	350,002
Sales receivables revenue	**41,407**	26,932
Ijara Muntahia Bittamleek revenue - net of depreciation	**106,943**	41,971
Others	**-**	(751)
	1,685,282	1,620,134

32 Revenue from banking services

	31 December 2015	31 December 2014
	RO	RO
Commissions income	**538,963**	131,570
Processing fees	**506,514**	192,075
Service charges	**331,715**	423,439
	1,377,192	747,084

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

33 Operating expenses

	31 December 2015	31 December 2014
	RO	RO
Staff cost	**9,285,636**	8,864,749
Rent expense	**857,229**	766,589
Advertisement	**625,037**	776,692
Operational leasing	**291,401**	381,421
Maintenance expense	**536,442**	357,766
Security and cleaning	**250,522**	229,360
Professional and consulting charges	**159,471**	228,504
Boards expenses	**101,023**	117,075
Government fee	**147,721**	146,997
Printing and stationery	**46,671**	134,580
Telephone, electricity and water	**447,142**	435,947
Traveling expense	**53,124**	47,841
Subscription expense	**82,065**	86,091
Cards expense	**464,389**	254,408
Others	**448,092**	416,995
	13,795,965	13,245,015

34 Income tax

34.1 Recognised in the statement of income

Deferred income tax	**(208,151)**	(1,036,707)
	(208,151)	(1,036,707)

The Bank is subject to income tax at the rate of 12% of taxable profits in excess of RO 30,000 calculated on the basis of International Financial Reporting Standard ("IFRS") accounting. The tax losses are available to carry forward for a period of 5 years and will be utilized against the future taxable profits. With effect from 1 January 2016, in addition to other changes the Bank will be subject to income tax at a rate of 15% (2015: 12%).

34.2 Reconciliation

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

	31 December 2015	31 December 2014
	RO	RO
Loss as per financial statements	**(5,468,393)**	(8,745,468)
Tax asset at the rate mentioned above	**(656,207)**	(1,049,457)
Non-deductible expenses and other permanent differences	**75,530**	18,791
Tax exempt revenues	**-**	(6,041)
Deferred tax not recognized	**372,526**	-
Total	**(208,151)**	(1,036,707)

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

Deferred tax asset are attributable to the following items:

	As at 1 Jan 2015	Recognized in income	Unrecognized in income	As at 31 Dec 2015
	RO	RO	RO	RO
Property, plant and equipment	(263,380)	(135,392)	135,487	(263,285)
General provision	179,247	(127,913)	189,211	240,545
Other provision	5,990	-	-	5,990
Losses carried forward	2,807,234	471,456	47,828	3,326,518
Net deferred tax asset	2,729,091	208,151	372,526	3,309,768

34 Income tax *(continued)*

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

	As at 1 Jan 2014	Recognized in income	Unrecognized in income	As at 31 Dec 2014
	RO	RO	RO	RO
Property, plant and equipment	(230,418)	(32,962)	-	(263,380)
General provision	51,567	127,680	-	179,247
Other provision	-	5,990	-	5,990
Losses carried forward	1,871,235	935,999	-	2,807,234
Net deferred tax asset	1,692,384	1,036,707	-	2,729,091

Deferred tax asset and liabilities recognized as at the reporting date are in the amount of RO 2,937,242.

Deferred tax asset and liabilities routed through owners' equity are attributable to the following items:

	As at 1 Jan 2015	Recognized in equity	As at 31 Dec 2015
	RO	RO	RO
Change in fair value	**5,215**	**(5,215)**	**-**
Net deferred tax assets	**5,215**	**(5,215)**	**-**

35 Net assets per share

Net assets per share is calculated by dividing the net assets at the year-end by number of shares outstanding at the end of reporting period

	2015	2014
	RO	RO
Net assets (RO)	**126,673,990**	132,043,262
Number of shares outstanding	**1,500,000,000**	1,500,000,000
Net assets per share	**0.084**	0.088

36 Loss per share basic and diluted

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

Loss for the year (RO)	**(5,260,242)**	(7,708,761)
Weighted average number of shares outstanding during the year	**1,500,000,000**	1,500,000,000
Loss per share basic and diluted (RO)	**(0.004)**	(0.005)

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

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37 Segment reporting

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

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

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

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

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

Segment information is as follows:

31 December 2015	Retail banking	Corporate banking	Treasury & investment	Others	Total
	RO	RO	RO	RO	RO
Total revenue (joint)	6,045,222	3,517,094	501,129	-	10,063,445
Return on unrestricted investment accountholders	(896,195)	-	-	-	(896,195)
Profit paid on Wakala	-	(362,813)	(53,781)	-	(416,594)
Bank's share in income from investment as a Mudarib and Rabul Maal	5,149,027	3,154,281	447,348	-	8,750,656
Bank's income from its own investments and financing	148,351	-	1,536,931	-	1,685,282
Other operating income	365,641	927,087	184,298	-	1,477,026
Total Revenue	5,663,019	4,081,368	2,168,577	-	11,912,964
Staff cost	6,255,415	1,627,657	1,402,564	-	9,285,636
Other operating expense	3,299,904	567,974	642,451	-	4,510,329
Depreciation & Amortization	1,058,130	244,634	278,091	-	1,580,855
General and specific provision	1,070,784	1,028,078	(94,325)	-	2,004,537
Total expense	11,684,233	3,468,343	2,228,781	-	17,381,357
Net (loss)/profit before tax	(6,021,214)	613,025	(60,204)	-	(5,468,393)
Income tax	-	-	-	208,151	208,151
Net (loss)/profit after tax	(6,021,214)	613,025	(60,204)	208,151	(5,260,242)
Total Assets	165,881,820	103,104,583	66,752,643	10,355,056	346,094,102
Total Liabilities & Equity of investment accountholders	125,908,119	63,479,030	16,940,000	13,092,963	219,420,112

37 Segment reporting *(continued)*

31 December 2014	Retail banking	Corporate banking	Treasury & investment	Others	Total
	RO	RO	RO	RO	RO
Total revenue (joint)	2,487,721	1,088,801	1,960,560	-	5,537,082
Return on unrestricted investment accountholders	(243,609)	-	-	-	(243,609)
Profit paid on Wakala	-	(6,771)	(175,958)	-	(182,729)
Bank's share in income from investment as a as a Mudarib and Rabul Maal	2,244,112	1,082,030	1,784,602	-	5,110,744
Bank's income from its own investments and financing	68,904	-	1,551,230	-	1,620,134
Other operating income	175,922	550,870	60,049	-	786,841
Total Revenue	2,488,938	1,632,900	3,395,881	-	7,517,719
Staff cost	5,966,624	1,432,287	1,465,838	-	8,864,749
Other operating expense	3,150,388	584,953	644,925	-	4,380,266
Depreciation & Amortization	943,992	272,727	307,728	-	1,524,447
General provision	925,580	473,820	94,325	-	1,493,725
Total expense	10,986,584	2,763,787	2,512,816	-	16,263,187
Net (loss)/profit before tax	(8,497,646)	(1,130,887)	883,065	-	(8,745,468)
Income tax	-	-	-	1,036,707	1,036,707
Net (loss)/profit after tax	(8,497,646)	(1,130,887)	883,065	1,036,707	(7,708,761)
Total Assets	81,066,143	54,449,598	107,345,608	10,244,582	253,105,931
Total Liabilities & Equity of investment accountholders	79,266,527	14,590,384	16,901,500	10,304,258	121,062,669

38 Financial instruments

(a) Fair values of financial instruments

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

(b) Fair values of financial instruments valuation hierarchy

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

Level 1 portfolio

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

Level 2 portfolio

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

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38 Financial instruments *(continued)*

Level 3 portfolio

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Transfer between Level 1 and 2

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

	Level 1	Level 2	Level 3	Total
	RO	RO	RO	RO
Financial assets at fair value through equity	**12,653,911**	**5,358,039**	**-**	**18,011,950**
Investment in real estate	**-**	**14,175,000**	**-**	**14,175,000**
Total financial assets at 31 December 2015	**12,653,911**	**19,533,039**	**-**	**32,186,950**

	Level 1	Level 2	Level 3	Total
	RO	RO	RO	RO
Financial assets at fair value through equity	2,129,720	309,787	-	2,439,507
Investment in real estate	-	14,175,000	-	14,175,000
Total financial assets at 31 December 2014	2,129,720	14,484,787	-	16,614,507

39 Related party transactions

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

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

31 December 2015	Principal shareholders	Sharia'a Board	Senior management	Total
	RO	RO	RO	RO
Sales receivables & other receivables	**843,734**	**22,992**	**151,870**	**1,018,596**
Ijara Muntahia Bittamleek	**4,286,523**	**-**	**519,785**	**4,806,308**
Wakala Bil Istethmar	**8,759,658**	**-**	**-**	**8,759,658**
Customers' accounts	**2,828,775**	**26,203**	**270,545**	**3,125,523**
Unrestricted investment accountholders	**1,059,804**	**32,030**	**172,254**	**1,264,088**

31 December 2014	Principal shareholders	Sharia'a Board	Senior management	Total
	RO	RO	RO	RO
Sales receivables	853,029	-	140,647	993,676
Ijara Muntahia Bittamleek	1,183,998	-	380,471	1,564,469
Wakala Bil Istethmar	10,000,000	-	-	10,000,000
Customers' accounts	2,626,682	12,147	189,534	2,828,363
Unrestricted investment accountholders	1,270,310	15,742	183,028	1,469,080

39 Related party transactions *(continued)*

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

31 December 2015	Principal shareholders	Sharia Board	Senior management	Total
	RO	RO	RO	RO
Profit account	**622,194**	**576**	**16,260**	**639,030**
Commission income	**3**	**-**	**-**	**3**
Operating expenses	**49,200**	**51,823**	**1,095,639**	**1,196,662**
- Staff expense	**-**	**-**	**1,095,639**	**1,095,639**
- Other expenses	**49,200**	**51,823**	**-**	**101,023**

31 December 2014	Principal shareholders	Sharia Board	Senior management	Total
	RO	RO	RO	RO
Profit account	97,482	-	12,706	110,188
Commission income	18	-	21	39
Operating expenses	50,000	67,075	1,118,152	1,235,227
- Staff expense	-	-	1,114,534	1,114,534
- Other expenses	50,000	67,075	3,618	120,693

40 Financial risk management

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

The high-level risk framework mainly addresses the following:

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

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

Credit risk

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

40 Financial risk management *(continued)*

Credit risk *(continued)*

Types of Credit Risk

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

Sales Receivable 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) stated net of deferred profits and provision for impairment.

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.

The analysis of credit portfolio is given below:

(a) Geographical concentrations

	Assets			Liabilities		
31 December 2015	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
	RO	RO	RO	RO	RO	RO
Sultanate of Oman	712,268	281,968,735	14,421,978	188,641,221	2,695,000	80,915,991
Other GCC countries	9,188,592	2,406,250	8,197,539	-	14,245,000	1,158,054
Europe and North America	884,680	715,501	501,126	-	-	4,734,857
Africa and Asia	2,154,611	-	1,891,307	-	-	127,333
Total	12,940,151	285,090,486	25,011,950	188,641,221	16,940,000	86,936,235

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

40 Financial risk management *(continued)*

Credit risk *(continued)*

(a) Geographical concentrations *(continued)*

31 December 2014	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
Sultanate of Oman	20,061,719	140,741,369	7,057,210	93,720,987	11,126,500	36,509,007
Other GCC countries	1,314,208	2,662,919	2,382,297	-	5,775,000	1,957,119
Europe and North America	31,341,088	2,472,268	-	-	-	-
Africa and Asia	6,016,652	-	-	-	-	12,757,280
Total	58,733,667	145,876,556	9,439,507	93,720,987	16,901,500	51,223,406

(b) Customer concentrations

31 December 2015	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross Financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
Personal	**-**	**179,782,727**	**-**	**125,290,123**	**-**	**35,126**
Corporate	**12,940,151**	**105,307,759**	**15,025,537**	**51,876,110**	**16,940,000**	**84,750,483**
Government	**-**	**-**	**9,986,413**	**11,474,988**	**-**	**2,150,626**
Total	**12,940,151**	**285,090,486**	**25,011,950**	**188,641,221**	**16,940,000**	**86,936,235**

31 December 2014	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross Financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
Personal	-	90,642,873	-	79,295,492	-	34,170
Corporate	58,733,667	55,233,683	7,366,997	14,425,495	16,901,500	51,189,236
Government	-	-	2,072,510	-	-	-
Total	58,733,667	145,876,556	9,439,507	93,720,987	16,901,500	51,223,406

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

40 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations

31 December 2015	Assets			Liabilities	
	Due from banks and interbank Wakala	Investments in Sukuk & securities	Gross financing	Current, unrestricted IAH and customer Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO
Personal	-	-	179,782,727	125,290,123	-
Construction	-	-	23,786,482	266,279	19,607,620
Manufacturing	-	-	715,501	6,492	17,325,000
Communication and utilities	-	-	-	-	-
Financial services	12,940,151	1,153,845	-	-	-
Government	-	9,986,413	-	11,474,988	5,000,000
Other services	-	-	3,985,265	450,225	9,739,998
Others	-	13,871,692	76,820,511	51,153,114	35,263,617
	12,940,151	25,011,950	285,090,486	188,641,221	86,936,235

31 December 2014	Assets			Liabilities	
	Due from banks and interbank Wakala	Investments in Sukuk & securities	Gross financing	Current, unrestricted IAH and customer Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO
Personal	-	-	90,642,873	79,295,492	-
Construction	-	-	7,262,124	6,100,127	30,747,195
Manufacturing	-	-	2,472,268	117,338	17,825,002
Communication and utilities	-	-	-	137,209	-
Financial services	58,733,667	-	-	-	-
Government	-	2,072,510	-	-	-
Other services	-	-	2,662,917	599,704	2,248,125
Others	-	7,366,997	42,836,374	7,471,117	403,084
	58,733,667	9,439,507	145,876,556	93,720,987	51,223,406

(d) Gross credit exposure

	2015	2014
	RO	RO
Gross financing	285,090,486	145,876,556
Investments in Sukuk & securities	25,011,950	9,439,507
Total	310,102,436	155,316,063

(e) Geographical distribution of exposures:

31 December 2015	Sultanate of Oman	Other countries	Total
	RO	RO	RO
Gross Sales receivables	88,687,651	715,501	89,403,152
Gross Ijarah Muntahia Bittamleek	155,253,276	2,406,250	157,659,526
Gross Wakala Bil Istethmar	38,027,808	-	38,027,808
Investments in Sukuk & securities	14,421,978	10,589,972	25,011,950
Due from banks and interbank Wakala	712,268	12,227,883	12,940,151
Total	297,102,981	25,939,606	323,042,587

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

40 Financial risk management *(continued)*

Credit risk *(continued)*

(e) Geographical distribution of exposures *(continued)*

31 December 2014	Sultanate of Oman	Other countries	Total
	RO	RO	RO
Gross Sales receivables	58,188,334	2,472,268	60,660,602
Gross Ijarah Muntahia Bittamleek	64,703,037	2,662,917	67,365,954
Gross Wakala Bil Istethmar	17,850,000	-	17,850,000
Investments in Sukuk & securities	7,057,210	2,382,297	9,439,507
Due from banks and interbank Wakala	20,061,719	38,671,948	58,733,667
Total	167,860,300	46,189,430	214,049,730

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

31 December 2015	Due from banks and interbank Wakala	Gross Sales receivables	Gross Ijarah Muntahia Bittamleek	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO	RO
Construction	**-**	**1,516,864**	**6,769,618**	**15,500,000**	**-**	**23,786,482**	**19,607,620**
Electricity, gas and water	**-**	**3,313,116**	**1,544,536**	**6,168,150**	**-**	**11,025,802**	**7,829,198**
Financial institutions	**12,940,151**	**-**	**-**	**-**	**1,153,845**	**14,093,996**	**-**
Services	**-**	**258,614**	**3,726,651**	**-**	**-**	**3,985,265**	**9,739,998**
Personal financing	**-**	**78,847,303**	**100,935,424**	**-**	**-**	**179,782,727**	**-**
Government	**-**	**-**	**-**	**-**	**9,986,413**	**9,986,413**	**5,000,000**
Non-resident financing	**-**	**715,501**	**2,406,250**	**-**	**-**	**3,121,751**	**-**
Others	**-**	**4,751,754**	**42,277,047**	**16,359,658**	**13,871,692**	**77,260,151**	**44,759,419**
	12,940,151	**89,403,152**	**157,659,526**	**38,027,808**	**25,011,950**	**323,042,587**	**86,936,235**

31 December 2014	Due from banks and interbank Wakala	Gross Sales receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO	RO
Construction	-	1,385,355	3,026,769	2,850,000	-	7,262,124	30,747,195
Electricity, gas and water	-	178,602	297,130	-	-	475,732	338,123
Financial institutions	58,733,667	-	-	-	57,210	58,790,877	-
Services	-	-	-	-	-	-	2,248,125
Personal financing	-	54,496,120	36,146,753	-	-	90,642,873	-
Government	-	-	-	-	2,072,510	2,072,510	-
Non-resident financing	-	2,472,268	2,662,917	-	-	5,135,185	-
Others	-	2,128,257	25,232,385	15,000,000	7,309,787	49,670,430	17,889,963
	58,733,667	60,660,602	67,365,954	17,850,000	9,439,507	214,049,730	51,223,406

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

40 Financial risk management *(continued)*

Credit risk *(continued)*

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

31 December 2015	Due from banks and interbank Wakala	Gross Sales receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO	RO
Upto 1 month	12,940,151	2,860,128	4,782,696	6,500,000	5,416,417	32,499,392	19,640,617
1 - 3 months	-	4,816,804	1,596,984	11,918,150	-	18,331,938	10,330,474
3 - 6 months	-	6,120,067	2,531,091	5,250,000	-	13,901,158	1,616,175
6 - 9 months	-	5,161,303	2,152,921	-	-	7,314,224	8,061,946
9 - 12 months	-	4,875,547	2,482,224	600,000	-	7,957,771	40,701,949
1 - 3 years	-	32,714,322	23,702,116	5,000,000	-	61,416,438	4,456,105
3 – 5 years	-	18,670,560	28,192,568	8,759,658	11,327,601	66,950,387	1,936,469
Over 5 years	-	14,184,421	92,218,926	-	8,267,932	114,671,279	192,500
	12,940,151	89,403,152	157,659,526	38,027,808	25,011,950	323,042,587	86,936,235

31 December 2014	Due from banks and interbank Wakala	Gross Sales receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO	RO
Upto 1 month	38,906,167	1,331,227	269,482	1,000,000	366,997	41,873,873	3,541,524
1 - 3 months	4,235,000	2,562,311	962,498	1,850,000	-	9,609,809	7,936,089
3 - 6 months	6,545,000	3,720,815	1,238,030	-	-	11,503,845	7,050,849
6 - 9 months	5,967,500	4,166,902	1,459,373	-	-	11,593,775	10,343,086
9 - 12 months	3,080,000	3,699,351	1,709,923	-	-	8,489,274	6,500
1 - 3 years	-	22,211,810	12,710,811	5,000,000	-	39,922,621	22,345,358
3 – 5 years	-	13,005,109	13,045,338	-	7,000,000	33,050,447	-
Over 5 years	-	9,963,077	35,970,499	10,000,000	2,072,510	58,006,086	-
	58,733,667	60,660,602	67,365,954	17,850,000	9,439,507	214,049,730	51,223,406

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

31 December 2015	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
Personal financing	179,777,053	5,674	1,419	2,348,494
Non-resident corporate financing	3,121,751	-	-	31,122
Resident corporate financing	102,061,158	124,850	31,213	1,515,740
	284,959,962	130,524	32,632	3,895,356

31 December 2014	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
Personal financing	90,642,873	-	-	1,279,129
Non-resident corporate financing	5,135,185	-	-	50,482
Resident corporate financing	50,098,498	-	-	499,515
	145,876,556	-	-	1,829,126

40 Financial risk management *(continued)*

Credit risk *(continued)*

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

31 December 2015	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO		RO
Sultanate of Oman	**281,838,211**	**130,524**	**32,632**	**3,864,234**
Other countries	**3,121,751**	**-**	**-**	**31,122**
Total	**284,959,962**	**130,524**	**32,632**	**3,895,356**

31 December 2014	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
Sultanate of Oman	140,741,371	-	-	1,778,643
Other countries	5,135,185	-	-	50,483
Total	145,876,556	-	-	1,829,126

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

	2015	2014
	RO	RO
Due from banks and interbank Wakala investments	**12,940,151**	58,733,667
Investment in Sukuk and securities	**25,011,950**	9,439,507
Gross Financing	**285,090,486**	145,876,556
	323,042,587	214,049,730
Off-balance sheet items		
Financial guarantee	**19,181,545**	11,042,630
Financial letter of credits	**12,488,567**	6,440,944
Acceptances	**11,381,098**	8,110,622
Bills for collection	**189,174**	360,797
Commitments	**43,695,851**	25,268,413
	86,936,235	51,223,406

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).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

40 Financial risk management *(continued)*

Liquidity risk *(continued)*

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

31 December 2015	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	14,372,436	-	-	-	253,106	14,625,542
Inter-bank Wakala and Due from banks	12,940,151	-	-	-	-	12,940,151
Financing to customers	13,408,803	31,218,284	13,500,191	111,468,024	99,391,102	268,986,404
Financial assets at fair value through equity	5,416,417	-	-	4,327,601	8,267,932	18,011,950
Financial assets at amortized cost	-	-	-	7,000,000	-	7,000,000
Investment in real estate	-	14,175,000	-	-	-	14,175,000
Intangible asset	-	-	-	-	1,856,817	1,856,817
Property and equipment	-	-	-	-	3,938,500	3,938,500
Other assets	334,101	705,499	193,198	3,208,242	118,698	4,559,738
Total assets	46,471,908	46,098,783	13,693,389	126,003,867	113,826,155	346,094,102
Interbank Wakala	3,465,000	-	-	13,475,000	-	16,940,000
Customer accounts, Wakala and unrestricted accountholders	17,798,665	46,412,952	36,038,728	51,373,734	36,993,879	188,617,958
Other liabilities	4,300,841	-	1,871,317	6,920,805	-	13,092,963
Investment risk and profit equalization reserve	-	-	-	-	769,191	769,191
Owners' equity	-	-	-	-	126,673,990	126,673,990
Total liabilities, equity of unrestricted investment accountholders and owners' equity	25,564,506	46,412,952	37,910,045	71,769,539	164,437,060	346,094,102
Net gap	20,907,402	(314,169)	(24,216,656)	54,234,328	(50,610,905)	-
Cumulative net gap	20,907,402	20,593,233	(3,623,423)	50,610,905	-	-

40 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

31 December 2014	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	24,895,762	-	-	-	195,997	25,091,759
Inter-bank Wakala and Due from banks	38,906,167	10,780,000	8,953,175	-	-	58,639,342
Financing to customers	2,369,401	9,223,161	9,801,426	60,981,899	53,139,854	135,515,741
Financial assets at fair value through equity	366,997	-	-	-	2,072,510	2,439,507
Financial assets at amortized cost	-	-	-	-	7,000,000	7,000,000
Investment in real estate	-	-	14,175,000	-	-	14,175,000
Intangible asset	-	-	-	-	1,910,394	1,910,394
Property and equipment	-	-	-	-	4,478,525	4,478,525
Other assets	411,276	249,724	371,769	2,734,306	88,588	3,855,663
Total assets	66,949,603	20,252,885	33,301,370	63,716,205	68,885,868	253,105,931
Interbank Wakala	12,666,500	4,235,000	-	-	-	16,901,500
Customer accounts and unrestricted accountholders	11,722,012	24,442,783	16,808,388	17,698,205	23,045,744	93,717,132
Other liabilities	10,289,480	14,778	-	-	-	10,304,258
Investment risk and profit equalization reserve	-	-	-	-	139,779	139,779
Owners' equity	-	-	-	-	132,043,262	132,043,262
Total liabilities, equity of unrestricted investment accountholders and owners' equity	34,677,992	28,692,561	16,808,388	17,698,205	155,228,785	253,105,931
Net gap	32,271,611	(8,439,676)	16,492,982	46,018,000	(86,342,917)	-
Cumulative net gap	32,271,611	23,831,935	40,324,917	86,342,917	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

40 Financial risk management *(continued)*

Market risk *(continued)*

(a) Currency risk

Currency risk is the risk of loss resulting from fluctuations in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealings.

The Bank undertakes currency risk mostly to support its trade finance services and cross-border FX exposures. It maintains overall foreign exchange risk position to the extent of statutory Net Open Position limit prescribed by CBO. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Omani Rial. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk. Foreign Exchange Risk exposures are managed as per Bank's Risk Management policies.

Exposure limits such as counterparty and currency limits are also in place in accordance with the Bank's approved policies to limit risk and concentration to the acceptable levels.

The foreign currency exposures are given below:

Foreign currency exposures

	2015	2014
	RO	RO
Net assets denominated in US Dollars	**(2,273,507)**	27,619,307
Net assets denominated in other foreign currencies	**174,580**	461,669

(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

	2015	2014
	RO	RO
+200 bps	**593,000**	1,800,075
+100 bps	**297,000**	900,037
-200 bps	**(593,000)**	(1,800,075)
-100 bps	**(297,000)**	(900,037)

40 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk *(continued)*

Profit rate sensitivity gap

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

31 December 2015	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12months	Due within 1 to 5 years	Due after 5 years	Non-Profit bearing	Total
	RO	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	14,625,542	14,625,542
Inter-bank Wakala and Due from banks	9,625,000	-	-	-	-	3,315,151	12,940,151
Financing to customers	22,606,325	40,243,535	13,130,680	135,293,589	57,712,275	-	268,986,404
Financial assets at fair value through equity	-	-	-	4,327,601	8,267,932	5,416,417	18,011,950
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	14,175,000	-	-	-	-	14,175,000
Intangible asset	-	-	-	-	-	1,856,817	1,856,817
Property and equipment	-	-	-	-	-	3,938,500	3,938,500
Other assets	371,994	177,743	-	270,840	74,182	3,664,979	4,559,738
Total assets	32,603,319	54,596,278	13,130,680	146,892,030	66,054,389	32,817,406	346,094,102
Interbank Wakala	3,465,000	-	-	13,475,000	-	-	16,940,000
Customer accounts, Wakala & unrestricted accountholders	3,540,239	22,544,677	24,607,046	51,997,209	14,940,129	70,988,658	188,617,958
Other liabilities	-	-	-	-	-	13,092,963	13,092,963
Investment risk & profit equalization reserve	-	-	-	-	769,191	-	769,191
Shareholders' equity	-	-	-	-	-	126,673,990	126,673,990
Total liabilities and shareholders' equity	7,005,239	22,544,677	24,607,046	65,472,209	15,709,320	210,755,611	346,094,102
On-balance sheet gap	25,598,080	32,051,601	(11,476,366)	81,419,821	50,345,069	(177,938,205)	-
Cumulative Profit sensitivity gap	25,598,080	57,649,681	46,173,315	127,593,136	177,938,205	-	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

40 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk *(continued)*

Profit rate sensitivity gap *(continued)*

31 December 2014	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12months	Due within 1 to 5 years	Due after 5 years	Non-Profit bearing	Total
	RO	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	25,091,759	25,091,759
Inter-bank Wakala and Due from banks	35,977,500	10,780,000	8,953,175	-	-	2,928,667	58,639,342
Financing to customers	2,369,402	31,943,674	42,553,723	31,784,487	26,864,455	-	135,515,741
Financial assets at fair value through equity	-	-	-	-	2,072,510	366,997	2,439,507
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	-	14,175,000	-	-	-	14,175,000
Intangible asset						1,910,394	1,910,394
Property and equipment	-	-	-	-	-	4,478,525	4,478,525
Other assets	411,276	233,895	85,109	-	-	3,125,383	3,855,663
Total assets	38,758,178	42,957,569	65,767,007	38,784,487	28,936,965	37,901,725	253,105,931
Interbank Wakala	12,666,500	4,235,000	-	-	-	-	16,901,500
Customer accounts & unrestricted accountholders	1,888,966	7,960,052	8,630,625	17,698,206	8,849,103	48,690,180	93,717,132
Other liabilities	1,004	14,778	-	-	-	10,288,476	10,304,258
Investment risk & profit equalization reserve	-	-	-	-	139,779	-	139,779
Shareholders' equity	-	-	-	-	-	132,043,262	132,043,262
Total liabilities and shareholders' equity	14,556,470	12,209,830	8,630,625	17,698,206	8,988,882	191,021,918	253,105,931
On-balance sheet gap	24,201,708	30,747,739	57,136,382	21,086,281	19,948,083	(153,120,193)	-
Cumulative Profit sensitivity gap	24,201,708	54,949,447	112,085,829	133,172,110	153,120,193	-	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

40 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

40 Financial risk management *(continued)*

Capital risk management *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2015 and 2014 as follows:

Capital structure	2015	2014
	RO	RO
TIER I CAPITAL		
Paid up capital	**150,000,000**	150,000,000
Share premium	**2,091,192**	2,091,192
Accumulated losses	**(25,273,783)**	(20,013,541)
Fair value gains or losses on financial assets at fair value through equity	**(186,282)**	(43,458)
Less: Intangible assets	**(1,856,817)**	(1,910,394)
Deferred tax asset	**(2,937,242)**	(2,729,091)
Total Tier I capital	**121,837,068**	127,394,708
TIER II CAPITAL		
Fair value gains on financial assets at fair value through equity	**8,820**	-
General provision	**3,895,356**	1,923,451
Total Tier II capital	**3,904,176**	1,923,451
Total eligible capital	**125,741,244**	129,318,159

Risk weighted assets

	2015	2014
Credit risk	**328,423,344**	234,393,927
Market risk	**8,982,015**	34,767,171
Operational risk	**13,930,428**	9,727,237
Total	**351,335,787**	278,888,335
Tier I capital	**121,837,068**	127,394,708
Tier II capital	**3,904,176**	1,923,451
Total regulatory capital	**125,741,244**	129,318,159
Tier I capital ratio	**34.68%**	45.68%
Total capital ratio	**35.79%**	46.37%
Common Equity Tier 1 (CET1)	**121,837,068**	127,394,708
Common Equity Tier 1 ratio	**34.68%**	45.68%

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

40 Financial risk management *(continued)*

Liquidity coverage ratio (LCR)

Stock of High Quality Liquid Assets (HQLA)	Factor	Book Balance	Adjusted amount
Level 1 assets		RO	RO
Coins and bank notes	100%	4,057,807	4,057,807
Total Level 1 assets		4,057,807	4,057,807
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	9,254,907	7,866,671
Total Level 2A		9,254,907	7,866,671
Level 2B			
Qualifying corporate debt securities, rated between A+ and BBB-	50%	3,340,625	1,670,313
Qualifying common equity shares	50%	58,378	29,189
Total Level 2B (maximum 15% of HQLA)		3,399,003	1,699,502
Total level 2 assets (Maximum 40% of HQLA)		12,653,910	9,566,173
Total Stock of liquid assets		16,711,717	6,763,012
Cash outflows			
Less stable retail deposits	10%	112,856,093	11,285,609
Less stable deposits	10%	10,410,796	1,041,080
Non-financial corporates, sovereigns, central banks and PSE	40%	42,998,996	17,199,598
Currently undrawn portion of credit lines			
Other Legal entity customers, credit and liquidity facilities	100%	4,500,000	4,500,000
Other contingent funding liabilities (Letters of credit, guarantee)	5%	829,000	41,450
Total cash outflows		171,594,885	34,067,737
Cash inflows			
All other assets	100%	10,355,000	10,355,000
Amounts to be received from retail counterparties	50%	3,698,051	1,849,026
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	9,925,492	4,962,746
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	9,625,000	9,625,000
Operational deposits held at other financial institutions	0%	3,315,151	-
Total cash inflows		36,918,694	26,791,772
75% of outflows			25,550,803
Inflows restricted to 75% of outflows			25,550,803
Net cash outflows			8,516,934
LCR (%)			79.41

41 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.

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

Tel 968 24709181
Fax 968 24700839

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

We have performed the procedures agreed with you and as prescribed in the Islamic Banking Regulatory Framework ("IBRF") issued by Central Bank of Oman ("CBO") under Circular No. IB 1 dated 18 December 2012 ("the Procedures") with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Bank Nizwa SAOG ("the Bank") set out on pages 75 to 108 as at and for the year ended 31 December 2015. The disclosures were prepared by the management in accordance with requirements of IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in IBRF issued by CBO under Circular No. IB 1 dated 18 December 2012, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013.

We report our findings as follows:

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

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

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

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

03 March 2016

KPMG

BASEL II PILLAR 3 ANNUAL DISCLOSURES 2015

1. Overview and Introduction

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

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

- Pillar I - defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk.
- Pillar II - addresses a bank's internal processes for assessing overall capital adequacy in relation to risks ("ICAAP"). Pillar II also introduces the Supervisory Review and Evaluation Process ("SREP"), which can be used as a tool to assess the internal capital adequacy of any organization.
- Pillar III - complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy. The aim of these disclosures is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution.

Pillar III disclosures include information about Bank Nizwa relating to our governance structure, capital structure, capital adequacy and requirements, risk management objectives and policies, and various supporting quantitative and qualitative disclosures along with a comparison with Dec 2014 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 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 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:

	2015	2014
	RO	RO
(a) Tier I Capital		
Paid up capital	**150,000,000**	150,000,000
Share premium	**2,091,192**	2,091,192
Accumulated Losses	**(25,273,783)**	(20,013,541)
Net Fair value losses on financial assets at fair value through equity	**(186,282)**	(43,458)
Less: Intangible Assets, Including Losses, Cumulative Unrealized Losses Recognized Directly In Equity	**(1,856,817)**	(1,910,394)
Less: Deferred Tax Assets	**(2,937,242)**	(2,729,091)
Total Tier I capital	**121,837,068**	127,394,708
(b) Tier II Capital		
General provision	**3,895,356**	1,923,451
Fair value gains on financial assets at fair value through equity	**8,820**	-
Total Tier II capital	**3,904,176**	1,923,451
Total eligible capital	**125,741,244**	129,318,159

(c) Unrestricted Investment Account and Related Reserves	2015	2014
	RO	RO
Amount of unrestricted Investment Accountholder (IAH) Funds	**73,597,787**	42,280,807
Investment fair value reserve	**(23,263)**	(3,855)
Profit Equalization Reserve (PER)	**727,885**	126,690
Investment Risk Reserve (IRR)	**41,306**	13,089

4. Capital Adequacy

4.1 Qualitative Disclosure

- The primary objective of the Bank's capital management is to ensure that the Bank complies with regulatory capital requirements and maintains healthy capital ratios in order to support its business and to optimize shareholders' value.
- The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issuing Sukuk etc.
- The capital structure is primarily made up of its paid-up capital, and including reserves. From a regulatory perspective, the significant amount of the capital is in Tier 1 form as defined by the CBO, i.e., most of the capital is of permanent nature.
- The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, future sources and uses of funds.
- To assess its capital adequacy requirements in accordance with CBO requirements, the Bank adopts the 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, for the year ended 31 December 2015 is 35.79% (Dec 2014:46.37%)

(a) Capital Requirements	2015		2014	
		RO		RO
	Risk Weighted Assets (RWA)	**Capital Requirement**	Risk Weighted Assets (RWA)	Capital Requirement
Credit Risk	**328,423,344**	**41,463,447**	234,393,927	29,592,233
Market Risk	**8,982,015**	**1,133,979**	34,767,171	4,389,355
Operational Risk	**13,930,428**	**1,758,717**	9,727,237	1,228,064
Total	**351,335,787**	**44,356,143**	278,888,335	35,209,652

	(b) Capital Requirements	2015	2014
	Details	RO	RO
1	Tier I Capital (after supervisory deductions)	**121,837,068**	127,394,708
2	Tier II capital (after supervisory deductions & up to eligible limits)	**3,904,176**	1,923,451
3	Tier III Capital (up to a limit where Tier II & Tier III does not exceed Tier I)	-	-
4	Of which, Total Eligible Tier III Capital	-	-
5	Risk Weighted Assets – Banking Book	**337,405,359**	269,161,098
6	Risk Weighted Assets – Operational Risk	**13,930,428**	9,727,237
7	Total Risk Weighted Assets – Banking Book + Operational Risk	**351,335,787**	278,888,335
8	Minimum required capital to support RWAs of banking book & operational risk	**44,356,143**	35,209,652
	i) Minimum required Tier I Capital for banking book & operational risk	**40,206,232**	33,286,201
	ii) Tier II Capital required for banking book & operational risk	**3,904,176**	1,923,451
9	Tier I capital available for supporting Trading Book	**81,630,836**	94,108,507
10	Tier II capital available for supporting Trading book	-	-
11	Risk Weighted Assets – Trading Book	-	-
12	Total capital required to support Trading Book	-	-
13	Minimum Tier I capital required for supporting Trading Book	-	-
14	Used Eligible Tier III Capital	-	-
15	Total Regulatory Capital	**125,741,244**	129,318,159
16	Total Risk Weighted Assets – Whole bank	**351,335,787**	278,888,335
17	BIS Capital Adequacy Ratio	**35.79%**	46.37%
18	Unused but eligible Tier III Capital	-	-

(c) Capital Adequacy Ratio	2015	2014
	RO	RO
Total Risk Weighted Assets (RWA)	**351,335,787**	278,888,335
Total Eligible Capital	**125,741,244**	129,318,159
Capital Adequacy Ratio	**35.79%**	46.37%

(d) Ratio of Total and Tier 1 Capital to Total RWA		
Tier 1 Capital	**121,837,068**	127,394,708
Total Capital	**125,741,244**	129,318,159
Total RWA	**351,335,787**	278,888,335
Ratio of Total Capital	**35.79%**	46.37%
Ratio of Tier 1 Capital	**34.68%**	45.68%

(e) Ratio of Total Capital to Total Assets		
Total Capital	**125,741,244**	129,318,159
Total Assets	**346,094,102**	253,105,931
Total Capital to Total Assets	**36.33%**	51.09%

(f) Disclosure of Capital Requirements according to different risk categories for each Sharia compliant financing contract	2015		2014	
	RO	**RO**	RO	RO
	Credit risk	**Market risk**	Credit risk	Market risk
Ijara Muntahia Bittamleek	**12,707,118**	**-**	5,817,054	-
Sales and Other Receivables	**9,982,938**	**-**	6,581,275	-
Wakala Bil Istethmar	**9,602,022**	**-**	9,014,250	-
Letter of Guarantees	**1,210,835**	**-**	1,394,132	-
Letter of Credit	**315,336**	**-**	813,169	-
Acceptance and Bills for Collection	**1,460,747**	**-**	1,069,517	-

(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 16.

5. Disclosures for Investment Accountholders (IAH)

5.1 Qualitative Disclosure

- The Bank offers Unrestricted Investment Accounts based on fully sharia compliant concept of Mudaraba.
- In Mudaraba, the Bank (Mudarib) manages Investment Account Funds (IAH) along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Sharia compliant investments opportunities. Such information is available for all customers at Bank's website, branches and call center.
- The Bank maintains necessary reserves as required by CBO.
- Any profits accrued out of the investment are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Investor (Rab-ul-Maal). Operating expenses incurred by the Bank are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the pool, as at that date, in the respective ratio of the Bank's and IAH's respective contribution to the fund.
- The investment profits are distributed between owners' equity and unrestricted investment accountholders as follows:

	2015	2014
	Percentage	Percentage
Unrestricted investment accounts share	**50%**	50%
Mudarib share	**50%**	50%

The investment risk reserve at 10 percent is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount the bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner equity and unrestricted investment accountholders.

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

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

5.2 Quantitative Disclosure

The related disclosure of Unrestricted Investment Account is given below:

a) PER to PSIA Ratio

	2015	2014
	RO	RO
Amount of Total PER	**727,885**	126,690
Amount of PSIA by IAH	**73,597,787**	42,280,807
PER to PSIA Ratio	**0.99%**	0.3%

b) IRR to PSIA Ratio

	2015	2014
	RO	RO
Amount of Total IRR	**41,306**	13,089
Amount of PSIA by IAH	**73,597,787**	42,280,807
IRR to PSIA Ratio	**0.06%**	0.03%

c) Return on Assets (ROA)

	2015	2014
	RO	RO
Amount of Total Net Income (before distribution of profit to unrestricted IAH)	**10,063,445**	5,537,082
Total Amount of Assets	**346,094,102**	253,105,931
Return on Assets (ROA)	**2.90%**	2.19%

d) Return on Equity (ROE)

	2015	2014
	RO	RO
Amount of total net income (after distribution of profit to IAH)	**8,750,656**	5,110,744
Amount of shareholders' equity	**126,673,990**	132,043,262
Return on Assets (ROE)	**6.91%**	3.87%

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 896,195 (Dec 2014: OMR 243,609) during the period to Investment Accountholders.

f) Ratios of financing to PSIA by type of IAH

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

Financing by type of contract		2015		2014
	RO	%	RO	%
Sales and Other Receivables	**89,403,152**	**31.36%**	60,660,602	41.58%
Ijarah Muntahia Bittamleek and Ijara Assets	**157,659,526**	**55.30%**	67,365,954	46.18%
Wakala Bil Istethmar	**38,027,808**	**13.34%**	17,850,000	12.24%
Total Financing	**285,090,486**	**100.00%**	145,876,556	100.00%

6. Unrestricted Mudaraba Investment Accounts

6.1 Qualitative Disclosure

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

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

	2015	2014
	Percentage	Percentage
Unrestricted investment accounts share	**50%**	50%
Mudarib share	**50%**	50%

- The investment risk reserve at 10% percent is deducted from customer's share after allocating the Mudarib share of profit. The profit equalization reserve is deducted from total revenue before allocating the Mudarib share based on ALCO decisions.
- The Bank does not charge Investment Accountholders for operating expenses incurred.

6.2 Quantitative Disclosure

a) **Total amount of unrestricted IAH funds with respect category**

	2015	2014
Account type	**RO**	RO
Mudaraba Saving account	**62,347,468**	35,396,409
Mudaraba Investment accounts:		
One month	**61,290**	123,000
Three months	**813,397**	578,851
Six months	**2,296,533**	1,091,563
Nine months	**220,050**	59,500
One year	**7,859,049**	5,031,484
Total	**73,597,787**	42,280,807

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

	2015	2014
	RO	RO
Share of profits	**896,195**	243,609
funds invested	**73,597,787**	42,280,807
Ratio	**1.22%**	0.58%

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

	2015	2014
	RO	RO
Share of profits	**266,783**	111,021
funds invested	**73,597,787**	42,280,807
Ratio	**0.36%**	0.26%

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

During the reporting year there was no utilization of PER. However the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to OMR 601,195 (Dec 2014: OMR 121,824).

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

During the reporting year there was no utilization of IRR. However the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to OMR 28,217 (Dec 2014: OMR 10,764).

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

No utilization has been made during the year either on IRR or PER.

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

	2015	2014	2013
	RO	RO	RO
Profit Earned	**10,063,445**	5,537,082	2,173,875
Profit Distributed	**896,195**	243,609	24,132
Funds Invested	**73,597,787**	42,280,807	9,969,867
Return as % of Funds Invested	**1.22%**	0.58%	0.24%

h) **Amount of total administrative expenses charged to unrestricted IAH**
As per Bank's policy, the administration expenses are only charged on the Bank expenses.

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

	2015	2014
Account type	**Average rate of return**	Average rate of return
Mudaraba Saving account	**0.30%**	0.28%
One month tenure	**0.58%**	0.52%
Three months tenure	**0.74%**	0.61%
Six months tenure	**1.09%**	0.79%
Nine months tenure	**1.13%**	0.84%
One year tenure	**1.29%**	1.12%

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

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

	2015	2014
Off-balance sheet items	RO	RO
Financial guarantee	**19,181,545**	11,042,630
Financial letter of credits	**12,488,567**	6,440,944
Acceptances	**11,381,098**	8,110,622
Bills for collection	**189,174**	360,797
Commitments	**43,695,851**	25,268,413
Total	**86,936,235**	51,223,406

l) **Disclosure of limits imposed on the amount that can be invested in any one type of asset**
The Bank does not have any restricted Investment Account as of reporting date, as such there are no limits imposed to be invested in any type of asset other than limits set in Bank's policy and CBO regulations.

7. Restricted Investment Accounts

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

8. Retail Investor-Oriented Disclosures for Investment Accounts

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

Following is the Product Structure of the Unrestricted Mudaraba Investment Account

8.1 Product Structure

Key Definitions and Concepts

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

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

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

Structure of the Mudaraba Investment 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 cured as follows:

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

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

- Will be covered from the Investment Risk Reserve.
- If there is no sufficient fund available in Investment Risk Reserve they will be covered from current revenues.
- If the current revenues are not sufficient. Therefore, the losses will be covered directly from investors' funds "Rabb ul Mal share".

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

9. Risk Management, Risk Exposures and Risk Mitigation

9.1 Qualitative Disclosure

- The Bank like all other major financial service organizations is facing increasing demands to better understand its risks, both from management and from external stakeholders. Factors such as the global pace of change, resource constraints, product complexity and a growing demand for transparency, present a compelling case for stronger management of risk.
- The Bank's risk management and control principles shall continue to be implemented through a risk management and control framework. This framework shall comprise qualitative elements such as policies and authorities, and quantitative components including risk measurement methodologies and risk limits. In addition, the framework shall be dynamic and continuously adapted as Bank's businesses and the market environment evolve. It shall be based on:

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

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

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

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

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

The four risk management decision phases are:

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

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

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

- The Bank's primary responsibility of managing Risk lies with Board of Directors (BOD) who has formed independent dedicated Board level committee, Board Governance Risk and Compliance Committee (BGRCC). The BGRCC is supported by independent Risk Management Group (RMG) that reports to BOD through BGRCC.
- Part of the risk governance, Senior Management Committees were established in the Bank to manage the overall level of each risk type. This includes: Assets and Liability Committee (ALCO), Credit and Investment Committee (CIC) and IT Steering Committee (ITSC). All the decisions taken by ALCO and CIC are submitted to BGRCC for their review and similarly decisions taken by BGRCC are submitted to BOD.

- To Bank has policies for each risk type and accordingly risk is identified, assessed, monitored and reported to the Board and Senior Management. For this, a comprehensive integrated risk management report covering is generated on regular basis that highlights risk and performance of portfolio and is reported to Senior Management and Board with analysis for their review.
- The Bank has comprehensive Risk Management Policies approved by the Board for all the major risk types. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework in the Bank.
- The risk appetite statement identifies risk objectives, policies, strategies and risk governance both at the Board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses.
- Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents. In addition, the Bank is in the process of implementing various risk systems to help quantify the regulatory capital allocated to various portfolios.
- The Bank is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework summarises the spirit behind Basel II and III which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.
- For the purpose of Capital Adequacy calculation the exposure funded by IAH are taken completely in RWA and required capital as per CBO is allocated.

9.2 Quantitative Disclosure

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

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

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

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

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

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

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

Financing by type of contract	2015		2014	
	RO	%	RO	%
Sales and Other Receivables	**89,403,152**	**31.36%**	60,660,602	41.58%
Ijarah Muntahia Bittamleek and Ijara Assets	**157,659,526**	**55.30%**	67,365,954	46.18%
Wakala Bil Istethmar	**38,027,808**	**13.34%**	17,850,000	12.24%
Total Gross Financing	**285,090,486**	**100.00%**	145,876,556	100.00%

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

	2015		2014	
	Gross Financing		Gross Financing	
	RO	%	RO	%
Personal	**179,782,727**	**63.06%**	90,642,873	62.14%
Corporate	**105,307,759**	**36.94%**	55,233,683	37.86%
Government	**-**	**0%**	-	0%
Total	**285,090,486**	**100%**	145,876,556	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 19,181,545 (Dec 2014: OMR 11,042,630) as of reporting date.

10. Credit Risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Bank.

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

10.1 Quantitative Disclosure

(a) Total Gross Credit and Average Gross Credit

	2015		2014	
	Total Gross Credit	Average Gross Credit	Total Gross Credit	Average Gross Credit
	RO	RO	RO	RO
Sales and Other Receivables	89,403,152	75,031,877	60,660,602	40,239,112
Ijarah Muntahia Bittamleek and Ijarah Assets	157,659,526	112,512,740	67,365,954	40,602,072
Wakala Bil Istethmar	38,027,808	27,938,904	17,850,000	8,925,000
Investments in Sukuk & securities	25,011,950	17,225,729	9,439,507	34,571,809
Interbank Wakala Placements	12,940,151	35,836,909	58,733,667	56,438,198
Total	323,042,587	268,546,159	214,049,730	180,776,191

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

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

External Ratings	2015		2014	
	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	-	872,428	2,072,510	-
A+, A, A-	8,516,979	5,537,928	-	15,000,000
BBB+, BBB, BBB-	7,730,500	753,410	7,000,000	17,094,000
BB+, BB, BB-	501,126	3,850,000	-	12,705,000
B+, B, B-	956,015	-	-	-
Unrated	7,307,330	1,926,385	366,997	13,934,667
Total	25,011,950	12,940,151	9,439,507	58,733,667

(b) Exposure in terms of geographical area

31 December 2015	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
Sultanate of Oman	712,268	281,968,735	14,421,978	188,641,221	2,695,000	80,915,991
Other GCC countries	9,188,592	2,406,250	8,197,539	-	14,245,000	1,158,054
Europe and North America	884,680	715,501	501,126	-	-	4,734,857
Africa and Asia	2,154,611	-	1,891,307	-	-	127,333
Total	12,940,151	285,090,486	25,011,950	188,641,221	16,940,000	86,936,235

31 December 2014	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
Sultanate of Oman	20,061,719	140,741,369	7,057,210	93,720,987	11,126,500	36,509,007
Other GCC countries	1,314,208	2,662,919	2,382,297	-	5,775,000	1,957,119
Europe and North America	31,341,088	2,472,268	-	-	-	-
Africa and Asia	6,016,652	-	-	-	-	12,757,280
Total	58,733,667	145,876,556	9,439,507	93,720,987	16,901,500	51,223,406

(c) Customer concentrations

31 December 2015	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross Financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
Personal	-	179,782,727	-	125,290,123	-	35,126
Corporate	12,940,151	105,307,759	15,025,537	51,876,110	16,940,000	84,750,483
Government	-	-	9,986,413	11,474,988	-	2,150,626
Total	12,940,151	285,090,486	25,011,950	188,641,221	16,940,000	86,936,235

31 December 2014	Assets			Liabilities		
	Due from banks & Interbank Wakala investment	Gross Financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO	RO
Personal	-	90,642,873	-	79,295,492	-	34,170
Corporate	58,733,667	55,233,683	7,366,997	14,425,495	16,901,500	51,189,236
Government	-	-	2,072,510	-	-	-
Total	58,733,667	145,876,556	9,439,507	93,720,987	16,901,500	51,223,406

(d) Industry concentrations

31 December 2015	Assets			Liabilities	
	Due from banks and interbank Wakala	Investments in Sukuk & securities	Gross financing	Current, unrestricted IAH and customer Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO
31 December 2015					
Personal	-	-	179,782,727	125,290,123	-
Construction	-	-	23,786,482	266,279	19,607,620
Manufacturing	-	-	715,501	6,492	17,325,000
Communication and utilities	-	-	-	-	-
Financial services	12,940,151	1,153,845	-	-	-
Government	-	9,986,413	-	11,474,988	5,000,000
Other services	-	-	3,985,265	450,225	9,739,998
Others	-	13,871,692	76,820,511	51,153,114	35,263,617
	12,940,151	25,011,950	285,090,486	188,641,221	86,936,235

31 December 2014	Assets			Liabilities	
	Due from banks and interbank Wakala	Investments in Sukuk & securities	Gross financing	Current, unrestricted IAH and customer Wakala	Contingent liabilities and commitments
	RO	RO	RO	RO	RO
Personal	-	-	90,642,873	79,295,492	-
Construction	-	-	7,262,124	6,100,127	30,747,195
Manufacturing	-	-	2,472,268	117,338	17,825,002
Communication and utilities	-	-	-	137,209	-
Financial services	58,733,667	-	-	-	-
Government	-	2,072,510	-	-	-
Other services	-	-	2,662,917	599,704	2,248,125
Others	-	7,366,997	42,836,374	7,471,117	403,084
	58,733,667	9,439,507	145,876,556	93,720,987	51,223,406

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

31 December 2015	Due from banks and interbank Wakala	Gross sales and Other Receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO	RO
Construction	-	1,516,864	6,769,618	15,500,000	-	23,786,482	19,607,620
Electricity, gas and water	-	3,313,116	1,544,536	6,168,150	-	11,025,802	7,829,198
Financial institutions	12,940,151	-	-	-	1,153,845	14,093,996	-
Services	-	258,614	3,726,651	-	-	3,985,265	9,739,998
Personal financing	-	78,847,303	100,935,424	-	-	179,782,727	-
Government	-	-	-	-	9,986,413	9,986,413	-
Non-resident financing	-	715,501	2,406,250	-	-	3,121,751	5,000,000
Others	-	4,751,754	42,277,047	16,359,658	13,871,692	77,260,151	44,759,419
	12,940,151	89,403,152	157,659,526	38,027,808	25,011,950	323,042,587	86,936,235

31 December 2014	Due from banks and interbank Wakala	Gross ales and Other Receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO	RO
Construction	-	1,385,355	3,026,769	2,850,000	-	7,262,124	30,747,195
Electricity, gas and water	-	178,602	297,130	-	-	475,732	338,123
Financial institutions	58,733,667	-	-	-	57,210	58,790,877	
Services	-	-	-	-	-	-	2,248,125
Personal financing	-	54,496,120	36,146,753	-	-	90,642,873	
Government	-	-	-	-	2,072,510	2,072,510	
Non-resident financing	-	2,472,268	2,662,917	-	-	5,135,185	
Others	-	2,128,257	25,232,385	15,000,000	7,309,787	49,670,430	17,889,963
	58,733,667	60,660,602	67,365,954	17,850,000	9,439,507	214,049,730	51,223,406

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

31 December 2015	Due from banks and interbank Wakala	Gross sales and Other Receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO	RO
Upto 1 month	12,940,151	2,860,128	4,782,696	6,500,000	5,416,417	32,499,392	19,640,617
1 - 3 months	-	4,816,804	1,596,984	11,918,150	-	18,331,938	10,330,474
3 - 6 months	-	6,120,067	2,531,091	5,250,000	-	13,901,158	1,616,175
6 - 9 months	-	5,161,303	2,152,921	-	-	7,314,224	8,061,946
9 - 12 months	-	4,875,547	2,482,224	600,000	-	7,957,771	40,701,949
1 - 3 years	-	32,714,322	23,702,116	5,000,000	-	61,416,438	4,456,105
3 – 5 years	-	18,670,560	28,192,568	8,759,658	11,327,601	66,950,387	1,936,469
Over 5 years	-	14,184,421	92,218,926	-	8,267,932	114,671,279	192,500
	12,940,151	89,403,152	157,659,526	38,027,808	25,011,950	323,042,587	86,936,235

	Due from banks and interbank Wakala	Gross sales and Other Receivables	Gross Ijarah assets and Ijarah Muntahia Bittamleek	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
	RO	RO	RO	RO	RO	RO	RO
31 December 2014							
Upto 1 month	38,906,167	1,331,227	269,482	1,000,000	366,997	41,873,873	3,541,524
1 - 3 months	4,235,000	2,562,311	962,498	1,850,000	-	9,609,809	7,936,089
3 - 6 months	6,545,000	3,720,815	1,238,030	-	-	11,503,845	7,050,849
6 - 9 months	5,967,500	4,166,902	1,459,373	-	-	11,593,775	10,343,086
9 - 12 months	3,080,000	3,699,351	1,709,923	-	-	8,489,274	6,500
1 - 3 years	-	22,211,810	12,710,811	5,000,000	-	39,922,621	22,345,358
3 – 5 years	-	13,005,109	13,045,338	-	7,000,000	33,050,447	-
Over 5 years	-	9,963,077	35,970,499	10,000,000	2,072,510	58,006,086	-
	58,733,667	60,660,602	67,365,954	17,850,000	9,439,507	214,049,730	51,223,406

(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:

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
31-Dec-15				
Construction	23,786,482	-	-	237,865
Electricity, gas and water	11,025,802	-	-	11,026
Financial institutions				
Services	3,985,265	-	-	-
Personal financing	179,777,053	5,674	1,419	2,348,494
Non-resident financing	3,121,751	-	-	31,122
Others	63,263,609	124,850	31,213	1,266,849
	284,959,962	130,524	32,632	3,895,356

	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
31-Dec-14				
Construction	7,262,124	-	-	72,621
Electricity, gas and water	475,732	-	-	4,757
Financial institutions	-	-	-	-
Services	-	-	-	-
Personal financing	90,642,873	-	-	1,279,129
Non-resident financing	5,135,185	-	-	50,482
Others	42,360,642	-	-	422,136
	145,876,556	-	-	1,829,126

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

31 December 2015	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO		RO
Sultanate of Oman	281,838,211	130,524	32,632	3,864,234
Other countries	3,121,751	-	-	31,122
Total	284,959,962	130,524	32,632	3,895,356

31 December 2014	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
Sultanate of Oman	140,741,371	-	-	1,778,643
Other countries	5,135,185	-	-	50,482
Total	145,876,556	-	-	1,829,125

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

31 December 2015	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
Personal financing	179,777,053	5,674	1,419	2,348,494
Non-resident corporate financing	3,121,751	-	-	31,122
Resident corporate financing	102,061,158	124,850	31,213	1,515,740
	284,959,962	130,524	32,632	3,895,356

31 December 2014	Performing financing	Non-performing financing	Specific provisions held	General provisions held
	RO	RO	RO	RO
Personal financing	90,642,873	-	-	1,279,129
Non-resident corporate financing	5,135,185	-	-	50,482
Resident corporate financing	50,098,498	-	-	499,514
	145,876,556	-	-	1,829,125

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

	2015	2014
	RO	RO
Balance at 1 January 2015	1,923,451	429,726
General provision during the year of Inter-bank Wakala	(94,325)	94,325
General provision during the year of Sales and Other Receivables	458,977	685,622
General provision during the year of investment in Ijara assets	(74,275)	74,275
General provision during the year of Ijara Muntahia Bittamleek	1,479,750	461,003
General provision during the year of Wakala Bil Istethmar	201,778	178,500
Specific provision for Ijarah rent receivables	32,632	-
General and specific provision expense	2,004,537	1,493,725
Balance at 31 December 2015	3,927,988	1,923,451

(l) **Penalty imposed on customers for default, and the disposition of any monies received as penalty**
During the year, OMR 5,703 (Dec 2014: 3,204) penalty is imposed to customer for delayed payment and same has been transferred to Bank Muscat Charity Project Fund as the policy.

11. Credit Risk Mitigation

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

11.1 Qualitative Disclosure

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

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

- The Bank accepts Hamish Jiddiyyah, Urbun, Profit Sharing Investment Accounts, pledged assets, Sukuk (rated/unrated), third party guarantees (by sovereigns, banks, corporate entities and High net-worth Individuals) as risk mitigant.
- Where eligible collaterals are available against facilities, the Bank takes independent valuation by approved valuators only and ensures that the assets held as collateral meet the criteria mentioned above. The Bank does not have any non-performing assets as of date however, whenever the acquires/disposes assets as a last resort on fair market value and decides on case to case basis to acquire or not for its operations.
- The Bank considers guarantees and if the risk profile/weight of the guarantor is better than the counterparty then risk weight is applied based on the rating of guarantor.

11.2 Quantitative Disclosure

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

	2015	2014
	RO	RO
Real Estate	141,403,948	55,397,810
Movable Assets	56,483,454	34,756,844
Total	197,887,402	90,154,654

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

	2015	2014
	RO	RO
Ijarah Muntahia Bittamleek	157,659,526	59,938,439

12. Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

12.1 Qualitative Disclosure

- Bank's Liquidity Risk Management is governed by the Liquidity Risk Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Liquidity risk policy incorporates contingency funding plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations.
- The Bank monitors its liquidity risk of funding related to current account, saving accounts, investment accountholder on individual basis as well as on aggregate basis through cash flow approach and stock approach.
- Treasury department of the Bank and Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds through Sharia compliant financing and investment activities.

12.2 Quantitative Disclosure

The related disclosure on Liquidity Risk is given below:

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

	2015	2014
	RO	RO
Short-term Assets	106,264,080	120,503,858
Short-term Liabilities	109,887,503	80,178,941
Short-term Assets to Liabilities	96.70%	150.29%

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

	2015	2014
	RO	RO
Liquid Assets	59,067,441	69,022,113
Short-term Liabilities	109,887,503	80,178,941
Total Liabilities	219,420,112	121,062,669
Liquid Asset to Short-term Liabilities	53.75%	86.09%
Liquid Asset to Total Liabilities	26.92%	57.01%

(c) Maturity profile of assets and liabilities

31 December 2015	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	14,372,436	-	-	-	253,106	14,625,542
Inter-bank Wakala and Due from banks	12,940,151	-	-	-	-	12,940,151
Financing to customers	13,408,803	31,218,284	13,500,191	111,468,024	99,391,102	268,986,404
Financial assets at fair value through equity	5,416,417	-	-	4,327,601	8,267,932	18,011,950
Financial assets at amortized cost	-	-	-	7,000,000	-	7,000,000
Investment in real estate	-	14,175,000	-	-	-	14,175,000
Intangible asset	-	-	-	-	1,856,817	1,856,817
Property and equipment	-	-	-	-	3,938,500	3,938,500
Other assets	334,101	705,499	193,198	3,208,242	118,698	4,559,738
Total assets	46,471,908	46,098,783	13,693,389	126,003,867	113,826,155	346,094,102
Interbank Wakala	3,465,000	-	-	13,475,000	-	16,940,000
Customer accounts, Wakala and unrestricted accountholders	17,798,665	46,412,952	36,038,728	51,373,734	36,993,879	188,617,958
Other liabilities	4,300,841	-	1,871,317	6,920,805	-	13,092,963
Investment risk and profit equalization reserve	-	-	-	-	769,191	769,191
Owners' equity	-	-	-	-	126,673,990	126,673,990
Total liabilities, equity of unrestricted investment accountholders and owners' equity	25,564,506	46,412,952	37,910,045	71,769,539	164,437,060	346,094,102
Net gap	20,907,402	(314,169)	(24,216,656)	54,234,328	(50,610,905)	-
Cumulative net gap	20,907,402	20,593,233	(3,623,423)	50,610,905	-	-

31 December 2014	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	24,895,762	-	-	-	195,997	25,091,759
Inter-bank Wakala and Due from banks	38,906,167	10,780,000	8,953,175	-	-	58,639,342
Financing to customers	2,369,401	9,223,161	9,801,426	60,981,899	53,139,854	135,515,741
Financial assets at fair value through equity	366,997	-	-	-	2,072,510	2,439,507
Financial assets at amortized cost	-	-	-	-	7,000,000	7,000,000
Investment in real estate	-	-	14,175,000	-	-	14,175,000
Intangible asset	-	-	-	-	1,910,394	1,910,394
Property and equipment	-	-	-	-	4,478,525	4,478,525
Other assets	411,276	249,724	371,769	2,734,306	88,588	3,855,663
Total assets	66,949,603	20,252,885	33,301,370	63,716,205	68,885,868	253,105,931
Interbank Wakala	12,666,500	4,235,000	-	-	-	16,901,500
Customer accounts and unrestricted accountholders	11,722,012	24,442,783	16,808,388	17,698,205	23,045,744	93,717,132
Other liabilities	10,289,480	14,778	-	-	-	10,304,258
Investment risk and profit equalization reserve	-	-	-	-	139,779	139,779
Owners' equity	-	-	-	-	132,043,262	132,043,262
Total liabilities, equity of unrestricted investment accountholders and owners' equity	34,677,992	28,692,561	16,808,388	17,698,205	155,228,785	253,105,931
Net gap	32,271,611	(8,439,676)	16,492,982	46,018,000	(86,342,917)	-
Cumulative net gap	32,271,611	23,831,935	40,324,917	86,342,917	-	-

13. Market Risk

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

13.1 Qualitative Disclosure

- The Bank seeks to mitigate market risk by employing strategies that correlate rate and price movements of its earning asset and liabilities. The Bank has Assets and Liability Committee (ALCO) which monitors Market and Liquidity Risk on regular basis. The details of market risk faced by the bank are discussed in the following notes.

13.2 Quantitative Disclosure

(a) Breakdown of Market RWA

	2015	2014
	RO	RO
Equity Position	-	-
Foreign Exchange Risk	8,982,015	34,767,171
Commodity Risk	-	-
Total	8,982,015	34,767,171

(b) Foreign Exchange Net Open Position to Capital

	2015	2014
Foreign Exchange Net Open Position to Capital	5.76%	17.81%

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.

14. Operational risk

14.1 Qualitative Disclosure

- Operational Risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts.
- The Bank has developed operational risk management policy and all the critical controls are implemented at all levels for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area are accordingly performance of the department is reviewed on regular basis. The Risk Appetite statement also sets a target for the Management related to Operational Risk and accordingly business plans, product programs are designed to minimize potential operational risk.
- The Bank has defined process for reporting and escalation of operational incidents that stores in the master database for tracking in future. Also, on an annual basis the potential high risk exposures are identified by each business and support function and accordingly controls are discussed/implemented to minimize risk exposures. The Bank's Sharia Compliance department checks independently the processes on regular basis to ensure there is no sharia related issue that could trigger operational loss to the Bank.
- As per the Bank's policy, operational risk is responsibility of all the staff members and all line managers are responsible for management of operational risk within their unit. Process and Control Improvement

is a business as usual for the Bank, accordingly all the line managers are required to perform process and control improvement on regular/need basis to ensure the Bank is not taking any unnecessary risk in carrying out business activities.

- The Bank has well-defined Business Continuity Management policy which is approved by Board 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.

14.2 Quantitative Disclosure

(a) RWA Equivalent for Quantitative Operational Risk

- For the purpose of measuring capital charge, the Bank has adopted the Basic Indicator Approach under Basel II for Operational Risk. The approach requires the Bank to provide 15% of the average three years gross annual income as capital charge for operational risk.

		2015	2014
		RO '000	RO '000
Net income from financing activities		9,711	3,646
Add: Net income from investment activities		2,038	3,512
Add: Fee income		1,377	747
Less: Investment Accountholders share of income		1,313	426
Add : Other Income		100	39
Total Revenues		11,913	7,518
		-	-
Less: Exceptional and extraordinary income		-	-
Gross Income		11,913	7,518
Gross Income times of Alpha (15%)		1,787	1,128
Operational Risk Weighted Assets	12.5x	22,337	14,096
Operational Risk Weighted Assets (Average of last 3 Years)		13,930	9,727

(b) Indicators for Operational risk exposures

	2015	2014
	RO '000	RO '000
• Gross Income taken in RWA calculation	11,913	7,518

- 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.

15. Rate of Return Risk

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

15.1 Qualitative Disclosure

- The profit rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on- and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Management Committee (ALCO) that reviews the profit rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.
- The sensitivity of the income statement is the effect of the assumed changes in profit rates on the earning for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December 2015.

15.2 Quantitative

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

31 December 2015	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12months	Due within 1 to 5 years	Due after 5 years	Non-Profit bearing	Total
	RO	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	14,625,542	14,625,542
Inter-bank Wakala and Due from banks	9,625,000	-	-	-	-	3,315,151	12,940,151
Financing to customers	22,606,325	40,243,535	13,130,680	135,293,589	57,712,275	-	268,986,404
Financial assets at fair value through equity	-	-	-	4,327,601	8,267,932	5,416,417	18,011,950
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	14,175,000	-	-	-	-	14,175,000
Intangible asset	-	-	-	-	-	1,856,817	1,856,817
Property and equipment	-	-	-	-	-	3,938,500	3,938,500
Other assets	371,994	177,743	-	270,840	74,182	3,664,979	4,559,738
Total assets	32,603,319	54,596,278	13,130,680	146,892,030	66,054,389	32,817,406	346,094,102
Interbank Wakala	3,465,000	-	-	13,475,000	-	-	16,940,000
Customer accounts & unrestricted accountholders	3,540,239	22,544,677	24,607,046	51,997,209	14,940,129	70,988,658	188,617,958
Other liabilities	-	-	-	-	-	13,092,963	13,092,963
Investment risk & profit equalization reserve	-	-	-	-	769,191	-	769,191
Shareholders' equity	-	-	-	-	-	126,673,990	126,673,990
Total liabilities and shareholders' equity	7,005,239	22,544,677	24,607,046	65,472,209	15,709,320	210,755,611	346,094,102
On-balance sheet gap	25,598,080	32,051,601	(11,476,366)	81,419,821	50,345,069	(177,938,205)	-
Cumulative Profit sensitivity gap	25,598,080	57,649,681	46,173,315	127,593,136	177,938,205	-	-

31 December 2014	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12months	Due within 1 to 5 years	Due after 5 years	Non-Profit bearing	Total
	RO	RO	RO	RO	RO	RO	RO
Cash and balances with Central Bank of Oman	-	-	-	-	-	25,091,759	25,091,759
Inter-bank Wakala and Due from banks	35,977,500	10,780,000	8,953,175	-	-	2,928,667	58,639,342
Financing to customers	2,369,402	31,943,674	42,553,723	31,784,487	26,864,455	-	135,515,741
Financial assets at fair value through equity	-	-	-	-	2,072,510	366,997	2,439,507
Financial assets at amortized cost	-	-	-	7,000,000	-	-	7,000,000
Investment in real estate	-	-	14,175,000	-	-	-	14,175,000
Intangible asset						1,910,394	1,910,394
Property and equipment	-	-	-	-	-	4,478,525	4,478,525
Other assets	411,276	233,895	85,109	-	-	3,125,383	3,855,663
Total assets	38,758,178	42,957,569	65,767,007	38,784,487	28,936,965	37,901,725	253,105,931
Interbank Wakala	12,666,500	4,235,000	-	-	-	-	16,901,500
Customer accounts & unrestricted accountholders	1,888,966	7,960,052	8,630,625	17,698,206	8,849,103	48,690,180	93,717,132
Other liabilities	1,004	14,778	-	-	-	10,288,476	10,304,258
Investment risk & profit equalization reserve	-	-	-	-	139,779	-	139,779
Shareholders' equity	-	-	-	-	-	132,043,262	132,043,262
Total liabilities and shareholders' equity	14,556,470	12,209,830	8,630,625	17,698,206	8,988,882	191,021,918	253,105,931
On-balance sheet gap	24,201,708	30,747,739	57,136,382	21,086,281	19,948,083	(153,120,193)	-
Cumulative Profit sensitivity gap	24,201,708	54,949,447	112,085,829	133,172,110	153,120,193	-	-

- 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

	2015	2014
	RO	RO
+200 bps	**593,000**	1,800,075
+100 bps	**297,000**	900,037
-200 bps	**(593,000)**	(1,800,075)
-100 bps	**(297,000)**	(900,037)

16. Displaced Commercial Risk

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

16.1 Qualitative Disclosure

- The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:
- **Profit Equalization Reserve (PER)**
  PER comprises amounts appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of a PSIA portion and a shareholders' portion;
- **Investment Risk Reserve (IRR)**
  IRR comprises amounts appropriated out of the income of IAH after deduction of the Mudarib share of income, to meet any future losses on the investments financed by the PSIA.

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

	2015	2014
Items	**RO**	RO
Total distributable profits	**10,063,445**	5,537,082
Bank Share As "Fund Provider"	**8,750,656**	5,181,458
Depositors Share of profits	**1,183,292**	355,624
Bank Share As "Mudarib"	**287,097**	112,015
Net profit to be distributed to the depositors before IRR & PER	**896,195**	243,609
Investment Risk Reserve "IRR"	**(28,217)**	(10,764)
Profit Equalization Reserve "PER"	**(601,195)**	(121,824)
Net profit to be distributed to the depositors after IRR & PER	**266,783**	111,021

- There was no utilization of funds from PER for the purpose of enhancing the returns to depositors
- The Bank is taking all the Risk Weighted Assets funded by IAH for the purpose of arriving at Total Risk Weighted Assets and capital requirement is calculated accordingly.

16.2 Quantitative Disclosures

Historical Rate of Return of unrestricted Investment Accountholder:

	2015	2014	2013
	RO	RO	RO
Profit Earned	**10,063,445**	5,537,082	2,173,875
Profit Distributed	**896,195**	243,609	24,132
Funds Invested	**73,597,787**	42,280,807	9,969,867
Return as % of Funds Invested	**1.22%**	0.58%	0.24%

BASEL II PILLAR 3 ANNUAL DISCLOSURES 2015

17. Contract-Specific Risk

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

17.1 Qualitative Disclosure

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

17.2 Quantitative Disclosure

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

	2015		2014	
	RO Credit risk	RO Market risk	RO Credit risk	RO Market risk
Ijara Muntahia Bittamleek and Ijara Assets	12,707,118	-	5,817,054	-
Sales and Other Receivables	9,982,938	-	6,581,275	-
Wakala Bil Istethmar	9,602,022	-	9,014,250	-
Letter of Guarantees	1,210,835	-	1,394,132	-
Letter of Credit	315,336	-	813,169	-
Bills for Collection and Acceptances	1,460,747	-	1,069,517	-

18. General Disclosure from Corporate Governance

18.1 Qualitative Disclosure

- An important objective of these disclosures is to ensure transparency regarding Sharia compliance by the Bank and applicable reporting standard. As such all material information are published as soon as practicable while meeting the deadlines set by the disclosure requirements of the CBO and the Bank is compliant with the applicable financial reporting standards.
- Corporate Governance is the system of rules, practices and processes by which the Bank is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in the Bank- these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining the Bank's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.
- The Capital Market Authority (CMA) Code of Corporate Governance for Public Listed Companies and the CBO guidelines as per the IBRF Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Bank Nizwa complies with all of their provisions. The CMA Code of Corporate Governance can be found at the following website, www.cma.gov.om. Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders or more broadly as its relationship to society

The following disclosure summarizes disclosure of related party:

31 December 2015	Principal shareholders	Sharia'a Board	Senior management	Total
	RO	RO	RO	RO
Sales and Other Receivables	843,734	22,992	151,870	1,018,596
Ijara Muntahia Bittamleek	4,286,523	-	519,785	4,806,308
Wakala Bil Istethmar	8,759,658	-	-	8,759,658
Customers' accounts	2,828,775	26,203	270,545	3,125,523
Unrestricted investment accountholders	1,059,804	32,030	172,254	1,264,088

31 December 2014	Principal shareholders	Sharia'a Board	Senior management	Total
	RO	RO	RO	RO
Sales and Other Receivables	853,029	-	140,647	993,676
Ijara Muntahia Bittamleek	1,183,998	-	380,471	1,564,469
Wakala Bil Istethmar	10,000,000	-	-	10,000,000
Customers' accounts	2,626,682	12,147	189,534	2,828,363
Unrestricted investment accountholders	1,270,310	15,742	183,028	1,469,080

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

31 December 2015	Principal shareholders	Sharia Board	Senior management	Total
	RO	RO	RO	RO
Profit account	622,194	576	16,260	639,030
Commission income	3	-	-	3
Operating expenses	-	-	-	-
Staff expense	-	-	1,095,639	1,095,639
Other expenses	49,200	51,823	-	101,023

31 December 2014	Principal shareholders	Sharia Board	Senior management	Total
	RO	RO	RO	RO
Profit account	97,482	-	12,706	110,188
Commission income	18	-	21	39
Operating expenses	50,000	67,075	1,118,152	1,235,227
Staff expense	-	-	1,114,534	1,114,534
Other expenses	50,000	67,075	3,618	120,693

- 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. The Bank has also implemented Complaint Management system that logs complaints, status and also informs the customer on the progress by generating automated alerts. This is supported by a dedicated team under supervision of CEO for management of customer complaints and feedbacks on the Bank's products and services. The customer care and quality services team of the Bank takes active part in resolution of customers' complaint and considers customers feedback on products and services. All complaints are logged and investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints in minimum timeframe. Whenever this is not possible, the customer is contacted directly and timeframe for rectification of complaint is advised. A periodical report on status of complaints is also submitted to CEO and Senior Management.

19. Sharia Governance Disclosures

19.1 Qualitative Disclosure

- Sharia Compliance department (SCD) is an element of the Sharia governance structure established in Bank Nizwa and approved by the 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) have mandated several provisions in relation to the establishment of a SSB and an internal SCD in an Islamic Bank as per the Islamic Banking Regulatory Framework (IBRF) issued by the CBO. The SSB is an independent Sharia supervisory body which plays a vital role in providing Sharia views and rulings 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 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. Meanwhile, Sharia non-compliance risk management report is done on monthly basis to record and evidence any Sharia non-compliant event.
- Sharia Audit unit executes continuous audit for transactions of all departments. Its observations and findings are reported by Sharia Audit report to SSB which is also conveyed and discussed with Management, with documentation of Management responses in addition to recommending action plan for each observation.
- To ensure Sharia compliance in execution, all transactions are executed according to Standard Operating Procedures prepared by the Operations Department and approved by the concerned department heads including Sharia. Sharia audit uses check lists as per SSB Sharia guidelines to meet Sharia requirement and ensure that the SOPs are adhered to during execution.
- Sharia audit reports are presented for review during the quarterly SSB meetings. In case SSB rules any earnings as Sharia non-compliant, such income is diverted to a charity account and disbursed to charitable organizational, officially recognized and registered, as nominated and supervised by SSB. Usually, Sharia non-compliant income is generated from delay penalty charges whereby clients undertake to donate to charity a certain amount in case of delay in installment payments to charity. Any Sharia non-compliant income or expense is presented by Sharia audit unit to SSB who issues a Sharia ruling regarding these amounts as indicated.
- As per IBRF, Islamic banks are required to apply Sharia standards issued by AAOIFI and abide by the comprehensive IBRF regulatory framework and guidelines. IBRF is mostly in agreement with Sharia standards issued by AAOIFI, and therefore, both references are applied with IBRF as the priority reference as the official regularity authority. 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.
- Branches are also subject to Sharia audit on regular basis, with visits conducted by Sharia audit unit manager accompanied by members of Sharia audit unit as needed. Such visits to branches in all regions of Oman have three basic objectives: Conduct Sharia audit of transactions processed at branch level, maintain contact with branch staff and provide updated Sharia training, and providing answers on Sharia related issues to staff and customers. All the above described Sharia audit activities are reported to Sharia Supervisory Board in a quarterly report, while any Sharia non-compliant observation is reported monthly to Sharia Executive Committee for their review and resolution. All Sharia audit observations are documented in Sharia audit reports which are shared with the head of Internal Audit as a member of the Internal Audit Committee in addition to the heads of all concerned business units.
- In conclusion, Sharia audit function is a continuous process which is supervised by the Internal Sharia reviewer based on screen sheets and check-lists for every transaction type, with follow up for any required regularization or amendments in addition to confirming documentation of all Sharia audit observations. The annual Sharia audit plan is also updated and upgraded based on business requirements and presented to Sharia Supervisory Board for approval before implementation.
- Sharia compliance department prepared a Sharia Training Policy which covers the objectives and scope of Sharia training in addition to Sharia Training Plan which is updated annually and approved by Sharia Supervisory Board and includes the training topics and training methods to be utilized. All Staff members

at the bank participate by attending in-house Sharia training delivered by Sharia compliance department members who provide the preliminary information in the induction program for new entry staff about Islamic Banking, financing and investment tools, in addition to the functions and services provided by the bank. Providing Sharia training in induction programs are concluded in coordination with HR department who arrange training programs for new comers.

- In addition to the above, Sharia compliance department provides training on continuous basis to staff of other departments as arranged based on training time allocation for all business units such as corporate, treasury, investment, operation units, and support units. Unscheduled special training modules are conducted for specific case discussion based on business requirements.
- Sharia training is not only internal, but encompasses the outside environment also. The bank has already hosted several Sharia training sessions for professionals, teachers, and students on the bank premises in addition to many other Sharia training events and awareness campaigns in several locations in Oman including universities, schools, business entities, conferences and writing articles for newspapers. Such training is delivered in both Arabic and English languages with reading material made available to attendees. To provide a higher rate of Sharia training, in 2015 Sharia compliance department has hired a new staff member dedicated to Sharia training who shall enforce spreading awareness on Islamic banking in the various regions and communities of Oman, in addition to the internal Sharia training conducted in house.
- 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 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.

19.2 Quantitative Disclosure

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

- Sharia Audit Unit conducts ongoing Sharia audit on all business transactions of the bank. Wholesale banking transactions are subject to 100% Sharia audit, while retail transactions are subject to Sharia audit based on sample basis 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 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.
- Five (5) violations to SSB's Sharia ruling and AAOIFI Sharia standard have been found during the year. Based on the Sharia audit finding in these transactions, SSB through Sharia Ex-Com has issued its Sharia ruling that the profit for these five (5) transactions amounting OMR 8,404 has to be forfeited from the Bank's income over the period as the profit falls due then it will be channeled to charity account.

  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 51,823 (Dec 2014: OMR 67,075) on account of remuneration to the SSB which includes accommodation, travelling expenses, meeting and annual fees.

20. Disclosures on Remuneration

- The Bank has engaged a consultant to achieve compliance with CBO requirements issued in January 2014. Accordingly, the Bank will disclose information about the compensation practices covering the main components of sound compensation practices, consistent with Basel Committee for Banking Supervision (BCBS) paper on Pillar 3 disclosure requirements for remuneration issued in July 2011.
- 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 will be 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 2015 and OMR 5,400 was paid to the members in lieu of sitting fees.
- The key management comprises of 11 members (2014: 12 members) of the management executive committee. The below table provides details of key management compensation:

	2015	2014
	RO	RO
Salaries and Benefits	**1,517,556**	1,561,847
End of Service Benefits	**104,072**	196,403
Total	**1,621,628**	1,758,250

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-15	Dec-14
	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	**(25,273,783)**	(20,013,541)
3	Accumulated other comprehensive income (and other reserves)	-	-
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
5	Public sector capital injections grandfathered until 1 January 2018		
6	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
7	Common Equity Tier 1 capital before regulatory adjustments	**126,817,409**	132,077,651
8	**Common Equity Tier 1 capital: regulatory adjustments**		
9	Prudential valuation adjustments	**(186,282)**	(43,458)
10	Unrealized losses		
11	Goodwill (net of related tax liability)	-	-
12	Other intangibles other than mortgage-servicing rights (net of related tax liability)	**(1,856,817)**	(1,910,394)
13	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**(1,174,897)**	(1,091,636)
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	**(1,762,345)**	(1,637,455)
20	National specific regulatory adjustments		
21	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
22	**Total regulatory adjustments to Common equity Tier 1**	**(4,980,341)**	(4,682,943)
23	**Common Equity Tier 1 capital (CET1)**	**121,837,068**	127,394,708
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	-	-

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-15	Dec-14
	Common Equity Tier 1 capital: instruments and reserves	RO	RO
42	Total regulatory adjustments to Additional Tier 1 capital	-	-
43	Additional Tier 1 capital (AT1)	-	-
44	**Tier 1 capital (T1 = CET1 + AT1)**	**121,837,068**	127,394,708
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	**3,895,356**	1,923,451
51	**Tier 2 capital before regulatory adjustments**	**3,895,356**	1,923,451
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	**8,820**	-
56	Tier 2 capital (T2)	**3,904,176**	1,923,451
57	Total capital (TC = T1 + T2)	**125,741,244**	129,318,159
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)	**351,335,787**	278,888,335
62	Of which: Credit risk weighted assets	**328,423,344**	234,393,927
63	Of which: Market risk weighted assets	**8,982,015**	34,767,171
64	Of which: Operational risk weighted assets	**13,930,428**	9,727,237
65	Capital Ratios		
66	Common Equity Tier 1 (as a percentage of risk weighted assets)	**34.68%**	45.68%
67	Tier 1 (as a percentage of risk weighted assets)	**34.68%**	45.68%
68	Total capital (as a percentage of risk weighted assets)	**35.79%**	46.37%

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-15**	**Dec-15**	Dec-14	Dec-14
Cash and balances with Central Bank of Oman	**14,625,542**	**14,625,542**	25,091,759	25,091,759
Certificates of deposit	-	-	-	-
Due from banks	**12,940,151**	**12,940,151**	58,639,342	58,639,342
Islamic Financing	**268,986,404**	**268,986,404**	135,515,741	135,515,741
Investments in Sukuk and Securities	**25,011,950**	**25,011,950**	9,439,507	9,439,507
Financing to banks	-	-	-	-
Investment in Assets generated revenue	**14,175,000**	**14,175,000**	14,175,000	14,175,000
Property and equipment	**3,938,500**	**3,938,500**	4,478,525	4,478,525
Deferred tax assets	**2,937,242**	**2,937,242**	2,734,306	2,734,306
Other assets	**3,479,313**	**3,479,313**	3,031,751	3,031,751
Total assets	**346,094,102**	**346,094,102**	253,105,931	253,105,931
Liabilities				
Due to banks	**16,940,000**	**16,940,000**	16,901,500	16,901,500

BASEL III COMMON DISCLOSURE

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

Table 2 (A)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	RO	RO	RO	RO
Customer deposits	**189,387,149**	**189,387,149**	93,856,911	93,856,911
Current and deferred tax liabilities	-	-	-	-
Other liabilities	**13,092,963**	**13,092,963**	10,304,258	10,304,258
Subordinated Sukuk	-	-	-	-
Total liabilities	**219,420,112**	**219,420,112**	121,062,669	121,062,669
Shareholders' Equity		-		-
Paid-up share capital	**150,000,000**	**150,000,000**	150,000,000	150,000,000
Share premium	**2,091,192**	**2,091,192**	2,091,192	2,091,192
Legal reserve	-	-	-	-
General reserve	-	-	-	-
Retained earnings	**(25,273,783)**	**(25,273,783)**	(20,013,541)	(20,013,541)
Cumulative changes in fair value of investments	**(143,419)**	**(143,419)**	(34,389)	(34,389)
Subordinated debt reserve	-	-	-	-
Total shareholders' equity	**126,673,990**	**126,673,990**	132,043,262	132,043,262
Total liability and shareholders' funds	**346,094,102**	**346,094,102**	253,105,931	253,105,931

BASEL III COMMON DISCLOSURE

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

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets	Dec-15	Dec-15	Dec-14	Dec-14
Cash and balances with CBO	14,625,542	14,625,542	25,091,759	25,091,759
Balance with banks and money at call and short notice	12,940,151	12,940,151	58,639,342	58,639,342
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	18,011,950	18,011,950	2,439,507	2,439,507
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	265,895,775	265,895,775	130,467,499	130,467,499
Islamic Financing to non-resident Customers for domestic operations				
Islamic Financing to non-resident Customers for operations abroad	3,090,629	3,090,629	5,048,242	5,048,242
Islamic Financing to SMEs	-	-	-	-
Islamic Financing from Islamic banking window				
Fixed assets	3,938,500	3,938,500	4,478,525	4,478,525
Other assets of which:				
Profit Receivable	894,759	894,759	730,282	730,282
Prepaid Expense	602,982	602,982	286,660	286,660
Refundable Deposits	88,588	88,588	88,588	88,588
Goodwill				
Other intangibles	1,856,817	1,856,817	1,910,394	1,910,394
Deferred tax assets	2,937,242	2,937,242	2,734,306	2,734,306
Others	36,167	36,167	15,827	15,827
Debit balance in Profit & Loss account				
Total Assets	346,094,102	346,094,102	253,105,931	253,105,931

BASEL III COMMON DISCLOSURE

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

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	Dec-15	**Dec-15**	Dec-14	Dec-14
Paid-up Capital	**150,000,000**	**150,000,000**	150,000,000	150,000,000
Of which:				
Amount eligible for CET1	**126,817,409**	**126,817,409**	132,077,651	132,077,651
Amount eligible for AT1	-	-	-	-
Reserves & Surplus	**(143,419)**	**(143,419)**	(37,389)	(34,389)
Total Capital	**126,673,990**	**126,673,990**	132,043,262	132,043,262
Deposits Of which:				
Deposits from banks				
Customer deposits	**189,387,149**	**189,387,149**	93,856,911	93,856,911
Deposits of Islamic Banking window				
Other deposits(please specify)				
Borrowings Of which: From CBO				
From banks	**16,940,000**	**16,940,000**	16,901,500	16,901,500
From other institutions & agencies	-	-	-	-
Borrowings in the form of bonds, Debentures and sukuks	-	-	-	-
Others (Please specify)				
Other liabilities & provisions Of which:				
Creditors and Accrual	**4,213,723**	**4,213,723**	3,364,082	3,364,082
Payment Order	**8,220,721**	**8,220,721**	6,237,985	6,237,985
Profit Payables	**429,998**	**429,998**	641,197	641,197
Others	**228,521**	**228,521**	60,994	60,994
Total Equity and Liabilities	**346,094,102**	**346,094,102**	253,105,931	253,105,931

BASEL III COMMON DISCLOSURE

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

Table 3

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

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

APPENDIX- SHARIA SUPERVISORY BOARD RESOLUTIONS (Fatwas)

FATWA: DEBIT CARD MASTER CARD

Salam Alaykum,

The Sharia Supervisory Board at Bank Nizwa reviewed the Debit Card Master Card program and reviewed its documents comprehensively which includes the following execution steps:

- the Card provides Sharia compliant services and discounts to the Card Holders through sales points;
- Sharia non-compliant services shall be blocked by the Bank;
- cash withdrawal from ATM machines;
- the cards shall be used in the purchase of Sharia compliant goods, commodities and services;
- services and cash withdrawal is subject to lump-sum fees;
- foreign exchange transactions are subject to a specified profit rate to the transaction amount.

The Sharia Supervisory Board at Bank Nizwa confirms as a result of the review that the "Debit Card Program" is in compliance with Sharia principles and rules as issued by the Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (02) on Debit and Credit Cards, and Sharia Standard number (28) on Banking Services in Islamic Banks, and Accounting Standards number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

The Sharia Supervisory Board recommends obedience to Allah, and true intentions in privacy and public, and adhere to best practices to the good of society;

and Allah knows best.

FATWA: INVESTMENT AGENCY

As-Salam Alaykum,

The Sharia Supervisory Board at Bank Nizwa reviewed the Investment Agency program comprehensively, and in addition to the details mentioned in the program, the transaction maintains the following major execution steps:

- The investment agency is concluded between two parties, the first is the investor or capital provider (Muwakkil) and the second party is the investment manager (Wakil);
- The agency fee is determined by a lump-sum amount or a percentage of the investment amount;
- Both parties exchange offer and acceptance to agree on the investment transaction and its execution;
- The investment agency is binding upon signing it by assigning the agency fee or the investment agreement expiry date, with undertaking not to terminate before expiry of the specified date;
- The investor makes the investment amount available on the agreed date of investment, and if not paid, the investment offer is considered cancelled;
- The investment is unrestricted whereby the investment agent is entitled to invest the investment amount in the general treasury investment pool, if a bank, or in the most appropriate investment;
- The investment is restricted if the capital provider specifies the investment and its conditions, and with including these specifications in the offer and acceptance document;
- The investment agent does not guarantee profits for the investment amount, but is only a custodian, except for cases of transgression or underperformance or violation to the terms of the investment agreement;
- The capital provider bears all the investment risks, and is entitled to its profits after deducting the agency fee;
- It is permitted to assign part or all the amount in excess of the investment expected profit in favor of the investment manager as management incentive in addition to the agency fee;
- It is permitted for the investment agent to pay part or all of the expected profit in advance to the investor after investment and generation of profit, and to pay parts of the expected profit on account, subject to final settlement against the actual realized profit upon termination of the investment;
- It is permitted for the investor to request early termination of the investment before the agreed date of termination. If the investment manager approves early termination, the investment manager must advise the investor of the profit amount for the relevant investment period, if any.
- The investment agent undertakes in case of any delay in paying the principle investment amount and its profit to the investor to donate a specified percentage to be disbursed to charity with the supervision of the Sharia Supervisory Board on the investor.

The Sharia Supervisory Board confirms as a result of the review, that the Investment Agency program and the Master Investment Agency Agreement are in compliance with Sharia standards issued by the Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (46) on Investment Agency, and Sharia Standard number (23) on Agency, and Accounting Standard number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

The Sharia Supervisory Board recommends obedience to Allah, and true intentions in privacy and public, and adhere to best practices to the good of society;

And Allah knows best.

FATWA: TRADE FINANCE

As-Salam Alaykum,

The Sharia Supervisory Board at Bank Nizwa reviewed the Trade Finance program and its documents comprehensively, and established the following major execution steps:

- The Bank finances import of merchandise by purchasing it using various Sharia compliant letters of credit and taking possession (constructive) then sells the merchandise on Murabaha basis in exchange for one payment or installments or as agreed between the Bank and the Customer;
- The Murabaha sale price includes the cost of merchandise plus costs and expenses as agreed and the agreed profit;
- In a Wakala letter of credit, the Bank acts as agent for the Customer in opening and executing the letter of credit, without the need for an independent agency agreement, and without offering financing;
- The Bank is not permitted to manage or participate in any letter of credit which includes conditions of paying or receiving interest;
- The Bank is permitted to issue all types of bank guarantees in exchange for administrative expenses only, and with tranches based on its value;
- The stand-by letter of credit is similar to a guarantee, and the Bank is permitted to charge administrative expenses, and the same applies for confirmation of letters of credit;
- Accepting drafts of letters of credit or documentary in similar to a guarantee for which the bank is entitled to charge administrative expenses only, and it is not permitted to discount drafts by purchasing it at a value less than face amount.

The Sharia Supervisory Board confirms and declares that the Trade Finance program is in compliance with Sharia principles and rules as issued by the Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (14) on Letters of Credit, and Sharia Standard number (05) on Guarantees, and Accounting Standards number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

The Sharia Supervisory Board recommends obedience to Allah, and true intentions in privacy and public, and adhere to best practices to the good of society;

and Allah knows best.

FATWA: FORWARD LEASE (IJARA MAWSOUFA BIL-THIMMAH)

As-Salam Alaykum,

The Sharia Supervisory Board at Bank Nizwa reviewed the Forward Lease (Ijara Mawsoufa Bil-Thimmah) program and its documents comprehensively, and established the following major execution steps:

- The Bank finances the construction cost by means of a construction contract with the contractor, as per requested specifications and delivery date;
- The Bank as lessor concludes the Forward Lease Agreement with the client as lessee;
- The client pays advance rental payment to the Bank;
- The clients pays periodic rental payments (fixed or variable) as agreed with the Bank upon concluding the Lease Agreement;

- The Bank shall be liable for major maintenance and property insurance (Takaful), and may assign the client as the service agent to execute these services on behalf of the Bank and to its account;
- The Bank transfer title of ownership of the property to the client on conditional gift basis subject to payment of all rental payments.

The Sharia Supervisory Board confirms and declares that the Forward Lease program in compliance with Sharia principles and rules as issued by the Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (09) on Lease (Ijara), and Sharia Standard number (11) on Manufacturing (Istisna), and Accounting Standards number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

The Sharia Supervisory Board recommends obedience to Allah, and true intentions in privacy and public, and adhere to best practices to the good of society;

And Allah knows best.

FATWA: CURRENCY EXCHANGE

As-Salam Alaykum,

The Sharia Supervisory Board at Bank Nizwa reviewed the Currency Exchange program comprehensively, and in addition to the details mentioned in the program, the transaction maintains the following major execution steps:

- Purchase and sale transactions of currencies shall be executed restrictively in the spot markets, and not in the forward or future markets;
- The Bank shall purchase currencies and take actual or constructive ownership and possession;
- Foreign exchange transactions are executed by the first party paying the full value of the first currency in exchange for the second party paying the full value of the second currency amount;
- It is permitted for the Bank to execute foreign exchange transactions based on unilateral promise basis;
- It is permitted for the Bank to utilize modern modes of communication to execute foreign exchange transactions;
- Corporate clients shall submit written mandate to the Bank assigning authorized persons to execute foreign exchange transactions and their authorities;
- The Bank may maintain financial positions in currencies to meet its financial requirements, but not for speculation or monopolizing.

The Sharia Supervisory Board confirms as a result of the review, that the "Currency Exchange" program and its relevant documents are in compliance with Sharia principles and rules as issued by the Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (01) on "Trading in Currencies", and Accounting Standard number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

The Sharia Supervisory Board recommends obedience to Allah, and true intentions in privacy and public, and adhere to best practices to the good of society;

And Allah knows best.

Sheikh Muhammad Taqi Usmani
Chairman of Sharia Supervisory Board ____________________

Dr. Abdul-Sattar Abou-Ghuddah
Vice Chairman of Sharia Supervisory Board ____________________

Sheikh Ibrahim Al-Sawwafi
Member of Sharia Supervisory Board ____________________

Sheikh Muhammad Al-Gharbi
Member of Sharia Supervisory Board ____________________

FATWA: CREDIT CARDS MASTER CARD

Salam Alaykum,

The Sharia Supervisory Board at Bank Nizwa reviewed the Credit Card Master Card program which includes the following details and execution steps:

- Credit Card can be used to purchase Sharia compliant services at sales points;
- Credit Card holders can withdraw cash from ATM machines;
- The Bank shall block Sharia non-compliant services and goods;
- Credit Card Services and cash withdrawals are subject to lump-sum fees;
- Purchase transactions and cash withdrawals in foreign currencies are converted at the prevailing market foreign exchange rates;
- Credit Card holders shall pay the outstanding amount in the specified period, without any increment due to the credit period;
- Credit Card holders have the option to subscribe to International Credit Card Without Services, or International Credit Card With External services, and pay subscription as per the type of credit card and its services.

The Sharia Supervisory Board at Bank Nizwa confirms as a result of the review of the "Credit Card Program" and its documents that it is in compliance with Sharia principles and rules as issued by the Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), especially Sharia standard number (02) on Debit and Credit Cards, and Sharia Standard number (28) on Banking Services in Islamic Banks, and Accounting Standards number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

The Sharia Supervisory Board recommends obedience to Allah, and true intentions in privacy and public, and adhere to best practices to the good of all;

And Allah knows best.

FATWA: LEASE TO OWN (CORPORATE) (IJARA MUNTAHIYA BI-TAMLEEK)

Sharia Supervisory Board at Bank Nizwa reviewed the Lease to Own (Ijara Muntahiya Bi-Tamleek) Product Program and its documents comprehensively, which includes the following four financing modes:

1. Purchase of property from its owner and leasing it to client;
2. Purchase of property from client and lease it back to client;
3. The bank taking lease of property and sub-lease it to client;
4. Lease of services.

1. **Basic execution steps in financing by purchase of property from its owner or from client, and lease it to client:**
   - In response to client request, the Bank purchases the property from its owner, or from client with a promise from the client to take lease of the property;
   - The Bank, as owner and lessor, concludes the Lease to Own Agreement with client;
   - The Bank stipulates to client not to use the leased property for Sharia non-compliant activities;
   - Client pays rental payments as agreed with the Bank upon concluding the Lease to Own Agreement;
   - The Bank, as owner, is liable for major maintenance and property insurance (Takaful), and may assign the client as the service agent to execute these services on behalf of the Bank and to its account;
   - Upon expiry of the lease term, the Bank transfers title of ownership of the property to the client on donation basis subject to payment of all rental payments.
2. **Basic execution steps in financing by taking lease of property from its owner, and sub-lease it to client:**
   - In response to client request, the Bank takes lease of a property from its owner by means of a Master Lease Agreement, with client from client to sub-lease it from the Bank;
   - The Bank sub-leases the leased property to client for a period not exceeding the Master Lease period;
   - Client pays rental payments to the Bank as agreed;
   - The Bank stipulates to client not to use the leased property for Sharia non-compliant activities.
3. **Basic execution steps in financing by taking lease or purchase of property from service provider, and lease it or sell it to client:**
   - In response to client request, the Bank purchases or leases the service from the service provider by means

of a purchase contract or master lease, with and obtains promise from client to purchase or take lease of the service after the Bank purchases and possesses it;

- If the service is delivered gradually during a time period, the Bank leases the service to client in exchange for agreed rental payments;
- If the service is delivered in one time, the Bank sells the service to client as per the agreed price and payment schedule;
- The Bank transfers the client to the service provider in case of any interruption of delivering the service, and the Bank commits to assist client in claiming its rights from service provider;
- In case client does not utilize the service after the Bank makes it freely available to client, client is bound to pay the service lease amount or sale price to the Bank.

Sharia Supervisory Board confirms that the Lease to Own Product Program is in compliance with Sharia principles and rules as issued by the Sharia Supervisory Board of the bank and Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (09) on Lease (Ijara), and Sharia Standard number (34) on Lease of Individuals, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

Sharia Supervisory Board recommends obedience to Allah, and sincere intentions in privacy and public, and adhere to best practices to the good of society; and Allah is All-knowledgeable.

FATWA: FINANCING BY INVESTMENT AGENCY

Sharia Supervisory Board at Bank Nizwa reviewed the Financing by Investment Agency Product Program and its documents comprehensively, which includes the following four financing modes:

- In response to client request, the Bank provides financing of working capital to the corporate client by Investment Agency;
- The Bank, as capital provider (investor), concludes Investment Agency Agreement with client as Investment Agent for short term investment periods as agreed;
- The Bank stipulates to the client to use the investment amount in identified Sharia compliant activities as per working capital requirements;
- Both parties agree on the investment expected profit by utilizing an agreed benchmark, the most important of which is the percentage of operating income as reported in the comparative audited financial statements;
- Upon maturity of the investment period, client must submit in-house financial figures to compare the actual realized operating income by the end of the investment period with the expected profit mentioned in the Investment Agency Agreement;
- Client pays the investment amount with the realized profit to the Bank, and any profit in excess to the agreed expected profit is incentive to the investment agent;
- It is permitted for the client to pay amounts on account of expected profit to the Bank during the investment period provided that all profit amounts paid are subject to settlement with the actual realized profit at the end of investment period;
- It is permitted for both parties to agree in advance in the Investment Agency Agreement to reduce the investment agency gradually at agreed dates, while the investment continues for the remaining investment amount for the agreed investment period, and it is not permitted to reduce the investment amount during the investment period if not agreed to this effect in the Investment Agency Agreement, except with approval of both parties;
- Client is not liable as guarantor of the investment amount, and profit if realized but not paid, except in cases in cases of transgression and underperformance and violation to the Investment Agency Agreement terms and conditions.
- Any securities taken by the bank can be executed only in cases of proven transgression and gross negligence by the client, or violation to the terms and conditions of the Financing by Investment Agency agreement.

Sharia Supervisory Board confirms that the Financing by Investment Agency Product Program is in compliance with Sharia principles and rules as issued by the Sharia Supervisory Board of the bank and Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (23) on Agency, and Sharia Standard number (46) on Investment Agency, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

Sharia Supervisory Board recommends obedience to Allah, and sincere intentions in privacy and public, and adhere to best practices to the good of society; and Allah is All-knowledgeable.

FATWA: DIMINISHING PARTNERSHIP (MUSHARAKA MUTANAQISAH) (CORPORATE)

Sharia Supervisory Board at Bank Nizwa reviewed the Diminishing Musharaka Product Program and its documents comprehensively, which includes the following financing modes:

1. Financing construction of property;
2. Financing general business of the client.

1. Basic execution steps in financing construction of property:

- In response to client request, the Bank participates in the Musharaka by an agreed amount, and the Musharaka share is determined by this amount;
- Client participates in the Musharaka by cash or tangible assets such as land whether with construction or not, and client Musharaka share is determined by this valuation;
- Both parties are entitled to participate in management, and it is permitted for both parties to assign a Musharaka manager which may be the client or another party;
- After concluding the Musharaka Agreement, it is permitted for the client to request the Musharaka participation from the Bank gradually as per project requirements, and after using the client's cash participation share;
- It is permitted for the Bank, after concluding the Musharaka Agreement, to lease its Musharaka property share to the client in exchange for rental payments on account, as agreed;
- It is permitted for the Bank to sell its Musharaka property share gradually to the client at market value of at a price agreed between both parties at that time.

2. Basic execution steps in financing general business by Diminishing Musharaka:

- In response to client request, the Bank participates in the Musharaka with client by the agreed amount, and the Musharaka share is determined by this amount;
- Client participates in the Musharaka share by assets in the working capital, and client's share is determined based on this valuation;
- Upon the Bank paying its Musharaka participation share and mingling with the client's Musharaka share in the working capital, the Musharaka becomes effective;
- The Bank stipulates to client not to use the Musharaka capital for Sharia non-compliant activities;
- It is permitted for both parties to participate in Musharaka management, and it is permitted for both parties to agree on assigning a Musharaka manager which may be the client or another party;
- Both parties shall agree on the profit distribution ratio in the Musharaka Agreement;
- Both parties agree on the Musharaka expected profit by utilizing an agreed benchmark, the most important of which is the percentage of operating income as reported in the comparative audited financial statements;
- Upon maturity of the Musharaka period, client must submit in-house financial figures to compare the actual realized operating income by the end of the Musharaka period with the expected profit mentioned in the Musharaka Agreement;
- It is permitted for the client to pay amounts on account to the Bank during the Musharaka period subject to settlement with the actual realized profit at the end of Musharaka period;
- The Bank is permitted to sell its Musharaka participation share gradually to client after evaluation of the working capital assets in due time, and it is not permitted to assign the share sale price at face value in the Musharaka Agreement.
- Client is not liable as guarantor of the Musharaka amount, and profit if realized but not paid, except in cases of transgression and underperformance and violation to the Investment Agency Agreement terms and conditions.
- Securities taken by the bank can be executed only in cases of transgression and gross negligence by the client, or violation to the terms and conditions of the Musharaka agreement.

Sharia Supervisory Board confirms that the Diminishing Musharaka Program is in compliance with Sharia principles and rules as issued by the Sharia Supervisory Board of the bank and Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (12) on Musharaka, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

Sharia Supervisory Board recommends obedience to Allah, and true intentions in privacy and public, and adhere to best practices to the good of society; and Allah is All-knowledgeable.

FATWA: FORWARD LEASE (CORPORATE) (IJARA MAWSOUFA BI-THIMMAH)

Sharia Supervisory Board at Bank Nizwa reviewed the Forward Lease Product Program and its documents comprehensively, and established the following major execution steps:

- In response to client request, the Bank finances construction cost by means of a construction contract with the contractor, as per specifications requested by client, and delivery date;
- Bank as owner of the construction project, leases the property under construction to the client by means of a Forward Lease Agreement;
- Client, as lessee, pays rental payments agreed with the Bank as per the Forward Lease Agreement and on account of the lease;
- Bank as owner of the property, is liable for major maintenance of the property as described, and property insurance (Takaful), and may assign the client as the service agent to execute these services on behalf of the Bank and to its account;
- Upon completion of construction, and with approval from client, the bank may abrogate the Forward Lease Agreement and conclude a Lease to Own Agreement whereby the Bank remains liable for major maintenance and property insurance;
- Upon termination of the lease, the Bank transfers title of ownership of the property to the client on conditional gift basis subject to payment of all rental payments.

The Sharia Supervisory Board confirms and declares that the Forward Lease Product Program in compliance with Sharia principles and rules as issued by the Sharia Supervisory Board at the bank and Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (09) on Lease (Ijara), and Sharia Standard number (11) on Manufacturing (Istisna), and Accounting Standards number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

The Sharia Supervisory Board recommends obedience to Allah, and sincere intentions in privacy and public, and adhere to best practices to the good of society; and Allah is All-knowledgeable.

FATWA: MANUFACTURING (ISTISNA) FOR CORPORATE

Sharia Supervisory Board at Bank Nizwa reviewed the Manufacturing (Istisna) Product Program for corporate clients and its documents comprehensively, and established the following major execution steps:

- Istisna refers to financing projects and transactions which includes construction of property, and manufacturing of various types of assets and goods, and contracting for execution of various types of projects such as infrastructure projects and projects for oil and gas industry.
- In response to client request, the Bank, as manufacturer or contractor, finances construction or manufacturing by concluding an Istisna contract with client, at the Istisna sale price, and delivery date;
- Bank, as the manufacturer or contractor in the Istisna contract, is entitled to assign execution of the same requested works by another party by means of a parallel Istisna contract, with the same specifications and delivery date, without any contractual link between the two contracts;
- The Istisna sale contract between the bank and client, and parallel Istisna between the bank and contractor or manufacturer are completely independent and the bank cannot waive its liability in case of non-delivery by the contractor in the parallel Istisna;
- Bank as manufacturer or contractor in the Istisna sale contract is liable to deliver the project as agreed to client on the delivery date;
- Bank may assign the client as supervisor for construction or manufacturing and the bank will not disburse payments without client's approval as supervisor;
- Client, as purchaser of the Istisna asset, shall pay to the bank Istisna installments as agreed between both parties in the Istisna payment schedule;
- Bank, as per the terms and conditions of the parallel Istisna contract, may assign warranties from the contractor in the parallel Istisna to the client to cover for any possible defects; and in case it is not possible to obtain the warranties from the manufacturer in the parallel Istisna, the client is entitled to have recourse to the bank as manufacturer.
- Upon completion of construction or manufacturing, and if specifications are not as per client request, the bank may offer client discount in the Istisna sale price to accommodate variation in specifications;

- In case of delay of delivery of the project, client is entitled to delay penalty from the bank as agreed in the Istisna sale contract, and the bank is entitled to stipulate delay penalty in the parallel Istisna contract.

Sharia Supervisory Board confirms and declares that the Istisna Product Program is in compliance with Sharia principles and rules as issued by the Sharia Supervisory Board of the bank and by Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (11) on Manufacturing (Istisna), and Accounting Standard number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

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FATWA: INTERBANK MUDARABA INVESTMENT

Sharia Supervisory Board at Bank Nizwa reviewed the Interbank Mudaraba Product Program and its relevant documents comprehensively including the Interbank Mudaraba Agreement, and established the following major execution steps:

- Mudaraba refers to an investment agreement between two banks or financial institutions: the first of which is the capital provider and the second is the investment manager (Mudarib). By exchange of offer and acceptance, the investment manager shall invest the Mudaraba investment capital for the agreed investment period.
- The interbank Mudaraba shall be of an unrestricted nature whereby the investment manager shall invest the investment capital in Sharia compliant investments in its general investment pool, and the investment manager may mingle its own funds in the Mudaraba investment.
- Both parties shall agree on the expected profit amount or rate to be generated from this Mudaraba investment in the exchange of offer and acceptance, and may use any well-known market regulated indicator as benchmark to establish the expected profit rate.
- The Mudaraba investment will become restricted if the capital provider restricts investment in a specific sector, commodity or any other restricting condition.
- At maturity of the Mudaraba investment, and after collecting its share of profit for the mingled funds in the Mudaraba investment, the investment manager (Mudarib) shall distribute the realized profits as per the agreed profit distribution ratio.
- The investment manager (Mudarib) is entitled to any profit amount in excess to the agreed expected profit rate as incentive.
- The capital provider bears all risks and losses of the investment, if any; and the investment manager (Mudarib) shall not be liable for any losses except for cases of negligence and violation to the Mudaraba terms and conditions.
- Amounts may be distributed on account of profit subject to final settlement in comparison to actual realized profit upon maturity of the Mudaraba investment.

Sharia Supervisory Board confirms and declares that the Interbank Mudaraba program is in compliance with Sharia principles and rules as issued by the Sharia Supervisory Board of the bank and Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (13) on Mudaraba, and Accounting Standard number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

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FATWA: RETAIL BUSINESS FINANCE

Sharia Supervisory Board at Bank Nizwa reviewed the Business Finance Product Program for retail clients and its documents comprehensively, and established the following major execution steps:

- The program caters for salaried individuals who also maintain small businesses.
- Products offered to clients of Business Finance include approved products such as Murabaha, Ijara, Forward Ijara, and other products that may be approved by SSB for retail clients.
- Murabaha is an approved product program whereby the bank purchases Sharia compliant goods from a third party, based on client's request, and sell it to client by Murabaha sale contract in exchange for Murabaha installment payments.

- Ijara is an approved product whereby the bank purchases property or assets or services from a third party, based on client's request, and lease it to client on lease-to own basis for an agreed rental period in exchange for rental installments.
- Forward lease is an approved product whereby the bank concludes a construction contract with a contractor, based on client's request to construct property such as a house, and lease the same to client on forward lease basis for an agreed period in exchange for rental installments.
- This program shall include other products offered to retail clients as approved by Sharia Supervisory Board.

Sharia Supervisory Board confirms and declares that the Retail Business Finance Product Program is in compliance with Sharia principles and rules as issued by the Sharia Supervisory Board of the bank and by Auditing and Accounting Organization for Islamic Financial institutions (AAOIFI), specifically Sharia standard number (08) on Murabaha, Sharia standard number (09) on Ijara and Accounting Standard number (01) on General Disclosure, and other related Sharia and Accounting standards, and with applicable regulations in the Sultanate of Oman.

Sharia Supervisory Board recommends obedience to Allah, and sincere intentions in privacy and public, and adhere to best practices to the good of society; and Allah is All-knowledgeable.

Dr. Abdul-Sattar Abou-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 ______________________________

These Fatwas were issued in Muscat during the period from 05th of Rabie Al Awwal 1435H equivalent to January 6th 2014 to 6th of Safar 1437H equivalent to November 18th 2015.