

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD  
ENDED 30<sup>th</sup> September 2016**

Dear Shareholders,

Assalam Alykum Wa Rahmat Allah Wa Barakateh,

Alhamdulillah, by the grace of Allah we have completed another progressive quarter in our efforts to grow Sharia' compliant banking in the Sultanate.

On behalf of the Board of Directors of Bank Nizwa SAOG, I am pleased to present to you the results for the Third quarter ended 30<sup>th</sup> September 2016. These are based on the unaudited condensed interim financial information which has been reviewed by our external auditors.

**ISLAMIC BANKING MARKET IN OMAN**

The Islamic finance sector has shown a significant progress during the period. As per the latest report issued by Central Bank of Oman, Islamic finance by Islamic banks and windows recorded a robust growth of 52.69 per cent (OMR726 million) in 12 months period ending June 2016 to reach at OMR2,103.8 million, against OMR1,377.8 million for the same period of last year. The total assets of Islamic banks and windows were pegged at OMR2,650.2 million as of the end of June this year, reflecting an increase of OMR817.6 million or 44.61 per cent compared to the June 2015. The pace of expansion and growth in Islamic banking indicates growing demand for sharia-compliant products in the marketplace. We believe that Islamic Banking has enormous potential and opportunities to grow.

The global economy experienced increased volatility since the end of 2014 as we witnessed a sustained weakness in oil prices, combined with a slowdown in global markets. The Oman economy, whilst overall resilient to economic headwinds due to government diversification strategy and regulatory reform, slowed in 2016 leading to tightening liquidity conditions in our domestic operating environment. However, key indicators of the banking sector are at comfort level with a decent growth in total assets. Banks in the system continued to maintain capitalization levels well above the regulatory requirements which show soundness of the banking sector.

Bank Nizwa will continue to embrace resilient business model, ensuring to deliver a stable financial performance. The Bank is already geared towards executing its strategic vision 2020 and accelerating its revenue diversification program. Despite the competitive environment in the market, we will continue to observe conservative risk management practices and remain vigilant to any unexpected changes in the market environment.

**FINANCIAL PERFORMANCE**

Bank Nizwa has continued its sustainable and profitable growth. The financial results of the nine months ended 30th September 2016 portrays a strong foundation for a sustainable core earnings momentum as it executes its long-term strategy.

The total assets at end of September 2016 reached RO 465 million compared with RO 316 million at end of September 2015, representing a growth of 47%. The customers' deposit portfolio increased to OMR 299 million as at September 2016, supporting bank in improved market share as more customers are now enjoying Sharia Compliant competitive profits and our personalised banking services. The bank is now serving more than 66,000 retail and corporate customers, whereas the net financing ended September 2016 was OMR 378 million compared to OMR 238 million during the same period last year, representing an increase of 59%. Operational income has increased by 51% to reach OMR 12.5 million as compared to the same period last year, and operating expenses were controlled at OMR 11.8 million.

As a result of the above contributing factors, the operating profit of the Bank grew from a loss of RO 3.3 million in the third quarter of 2015 to a profit of RO 666 thousands before provision during the current period showing a growth of 120%. This significant achievement reduce our net loss by 87% to reach RO 540k at end of September 2016 compared to a loss of RO 4.2 million.

During this quarter, the bank started to make a profit after provisions. This is an important milestone towards meeting bank's strategic plans of improving the performance and reducing the accumulated losses.

In addition, the bank has strong capital adequacy ratio to support long-term growth of business and operations.

The interim progress of the Bank is clearly evident of the positive and upward trajectory which should enable the Bank to meet the objectives for the year 2016 and going forward.

### **THE YEAR AHEAD**

We remain concerned about the current levels of economic activity and growth in the region and the major markets around the world. Oil prices are expected to improve further from current level during the course of the year in 2016. Against this backdrop of relatively low oil prices, government has already taken a more prudent fiscal stance which will reduce the budgetary pressure. However, investment in key infrastructure projects in the Country is expected to continue over the medium term which will create growth opportunities for banking sector. We expect growth in the overall economic activity in 2016 as government has already initiated efforts for economic diversification.

Looking ahead, we are confident to grow our balance sheet in a controlled manner through diversification of revenue sources and expansion of our product and client base. As we are approaching towards the end of year, we will focus more on driving asset growth and cross-sell in the growing retail business.

We are confident that our solid fundamentals to undertake a considered and discipline approach to cost and risk management are positioning the Bank to continue our success story.

## ACKNOWLEDGEMENTS

We, the founders of Bank Nizwa, the Board of Directors and the Executive Management, extend our sincere thanks and gratitude to His Majesty for granting honourable approval for the establishment of Islamic banks, which allows the Bank to participate in the economic system as a result of His Majesty's visionary leadership. We also acknowledge the efforts of the Central Bank of Oman and the Capital Markets Authority for their continued support towards the success of Islamic banking.

Finally, On behalf of the Board of Directors' and Management of Bank Nizwa, I conclude this report by thanking the Shareholders, our customers and the community that continue to support us in the challenge of making successful the first Islamic Bank and thank them for their continued patronage and trust in Bank Nizwa.



Amjad Bin Mohammed Al Busaidi  
Chairman