

THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD
ENDED 31st DECEMBER 2014

Dear Shareholders,

Assalamu'alaikum Wa Rahmat Allah Wa Barakatuh,

On behalf of the Board of Directors of Bank Nizwa SAOG, I am pleased to present to you the Financial Statements and Auditor's Report for the financial year ended 31 December 2014. The story that these results portrays is a testament to the ambition we have as a First Shari'a compliant Bank, as well as our passion to go beyond excellence. As we look back with a great sense of pride at the many accomplishments we have achieved in this year in review and our two-year history, we salute everyone who has been a great source of support along the way.

During the year our primary focus was on driving forward our corporate and consumer propositions, serving clients, strengthening its leadership position and making a significant positive impact on our communities. There is a lot to be learned and this will only provide us with greater impetus for improved performance in the coming year and we will continue to make new inroads in a new industry and highly competitive marketplace.

FINANCIAL PERFORMANCE

Focus on balance sheet management has been a key priority for the year. The total assets of the Bank as of 31th December 2014 reached 253 million Omani Riyals achieving a 29 per cent growth from 2013. In spite of all the challenges, contributions by Wholesale Banking were higher when compared to the previous year while Retail Banking continued to play an important role in gathering deposits and extending financing thereby increasing market share.

Balance sheet growth was driven by financing portfolio progress which stood at 137.3 million Omani Riyals, recording a surge of 343 per cent which provided the momentum needed to continue our growth trajectory while enhancing the quality and diversity of our revenue base towards core revenue from financing portfolio which was the largest contributor to the Bank's total revenues representing 66 per cent. A move from low yield and liquid assets into higher yield and longer

maturity assets continued in order to achieve an optimal balance sheet structure. The Bank maintained high assets quality without any non performing financing for the second year since inception.

Customers' deposits, the core source of balance sheet funding, reached 93.7 million Omani Riyals by the end of the period, recording a growth of 234 per cent. The composition of the deposits portfolio has aided in the reduction of concentration risk where current and saving accounts are the largest portion of the deposit portfolio representing 90%, which is the highest in the market.

Balance sheet developments resulted in revenues enhancement in quality and volumes, showing gross growth of 163 per cent over the previous year, compared to 18 per cent cost growth during the same period. We are on track to achieving the targeted cost to income ratio and resultant breakeven targets.

As a result of revenue growth, managing and monitoring the cost, the net loss after tax and provision decreased by 37 per cent over the previous year.

INNOVATION

Innovation was and continues to be a catalyst that shapes the way we conduct our business. The results were evident across multiple divisions of the Bank. The Corporate & Commercial Banking division introduced the first-ever lease and sub-lease financing combination structure where the asset-base was insufficient to back normal Ijara-finance and also piloted the concept of Wakala bel Istithmaar working capital facilities. Retail Banking launched a number of value-added financing solutions to help customers acquire automobiles, homes and other needs for modern-day requirements. Risk Management implemented new metrics, policies and monitoring tools in addition to a continuous improvement program to further build a robust Corporate Governance structure while the latest technology continues to be adopted to redefine the customer experience.

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 achieved its two-year network expansion target on schedule with the opening of 10 fully-fledged branches across the Sultanate. Today our presence extends starting from Muscat and capturing the north of the Sultanate in Sohar all the way to the South of the country in Salalah. In 2015 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. Designed to meet the professional and personal needs of today's modern Omani woman, the Bank tailored its Islamic Banking offering and launched a new customized experience that empowers women to lead financially secure lifestyles while offering a world of instant rewards and benefits. This was well received and appreciated especially given the fact that approximately 20% of our customer base is comprised of females.

We have also further developed our different banking channels to offer state-of-the-art Automated Teller Machines and Cash & Deposit Machines, Internet Banking, Mobile Banking and a 24/7 Call Center.

HUMAN CAPITAL

Employees are the driving force behind the Bank's success and efforts were centered on advancing capacities and capabilities to become the leaders of tomorrow in this burgeoning industry. To this end, a Human Resources Management System (HRMS) was implemented and more than 500 training programs were conducted. A 'succession planning' program was also initiated to prepare high-potential employees to full key positions within the Bank and Omanization increased to 86%.

The Bank is fully committed to not only attracting the best and brightest talent but 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 Shari'a 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 segment of the society direct access to our experts and advice on making informed decisions in accordance with their beliefs.

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 SOCIAL RESPONSIBILITY

Corporate stewardship has and will remain to be an integral component of the Bank's modus operandi and we aim 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 an option 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 throughout the year and aims to continue giving back to the community.

CORPORATE GOVERNANCE

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

FUTURE OUTLOOK

The Bank has built a solid foundation for success and our strategy will remain the same in the coming year. We will continue to dedicate efforts to strengthening operations, product and service propositions - with particular focus on Corporate Banking, Consumer Banking Investment Banking, Global Markets, SMEs and mobile solutions - and our people with the end goal of achieving the highest levels of customer satisfaction underpinned by the latest advances in technology.

While the effects of the weakened oil prices resulting in slower growth across GCC and is felt by many of the Oman's key trading partners. Growth may be slightly lower than in 2013, it should remain robust, underpinned by public investment as a number of major projects are underway on back of strong fiscal buffers that has been created after running a years of surplus that will support diversification and growth well into the future and this will be further supported by Oman's stance on trade and investment and a sound financial sector.

To date, Oman has witnessed a decent growth in terms of demand, acceptance and development of Islamic finance since it was introduced two years ago. However, still lot more need to do to create awareness about industry, to make customer familiar with the procedures and comprehensive legal framework, promoting Shariah compliance in all aspects, is a transition towards a more sustainable future for the Islamic finance industry

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 is 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.

Amjad Mohammed Al Busaidi
Chairman