

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD  
ENDED 31<sup>ST</sup> DECEMBER 2013**

Dear Shareholders,

Assalam Alykum Wa Rahmat Allah Wa Barakateh,

Alhamdulillah, by the grace of Allah we have completed the first financial period of the Bank's operations.

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 period ended 31 December 2013. These financials cover the period prior to the incorporation of the Bank on 15 August 2012 to 31 December 2013.

Firstly, on behalf of the Founders of Bank Nizwa, the Board of Directors and the Executive Management we extend our sincere thanks and gratitude to His Majesty for granting honorable approval for the establishment of Islamic banks, which no doubt have already started to add a new tributary to the banking sector in Oman, and we ask Almighty Allah to help us all. We also acknowledge the efforts of the Central Bank of Oman and the Capital Markets Authority for their earnest efforts in establishing Islamic banking in the Sultanate and their continued support towards the success of Islamic banking.

**ISLAMIC BANKING MARKET IN OMAN**

It is important to highlight the fact that this is a new industry to Oman, and the expectations were very high that it will be a ready shift. While we still believe in that, two main factors are needed to accomplish the objective:

1. Awareness about the industry and its procedures which some people think is more complicated than conventional because they are not familiar with its procedures, in addition that certain portions of the individuals indebtedness can be shifted but not personal loans; and
2. Ability to geographically reach the whole Sultanate particularly those outside the major cities.

**FINANCIAL PERFORMANCE**

Bank Nizwa was granted the final license from the Central Bank of Oman on 19th of December 2012, and started its soft operation on 23<sup>rd</sup> of December 2012.

The total assets of the Bank as of 31<sup>st</sup> December 2013 reached 195,996,928 Omani Riyals, of which 16% was in direct financing to retail and corporate customers, and Islamic deposit growth in 2013 was consistent with market growth.

The Bank incurred net expenses of OMR 3,921,119 prior to the Bank starting operations, the operating expenses for the period of 19 December 2012 to 31 December 2013 are OMR 11,083,168. As a result the net operating loss after tax of 12,304,780 was recorded; this loss is lower than our budget prepared in 2013. The budget was developed taking into consideration the market conditions, regulations and Sharia principles. The Bank has performed better than the budget set out, by managing costs and is well placed to build the asset book rapidly.

The cost to income ratio, a measure of the efficiency of the Bank has been closely monitored by the Board. As a result the cost to income ratio is in continuous decline, and the Bank continues to monitor it closely so that it becomes within the normal levels applicable amongst banks.

#### **THE NETWORK OF BRANCHES & ELECTRONIC BANKING**

The Bank started its operation to the public on Thursday 10<sup>th</sup> of January 2013 through three branches in Muscat, Nizwa and Sohar. The Bank was already operating seven branches by the end of 2013, and plans to cater to more of its customers through additional five to six locations across the Sultanate.

#### **THE TEAM of BANK NIZWA**

Bank Nizwa has been fortunate to have been spearheaded by experienced and dedicated team of professionals. From the onset, the founding committee of the Bank collaborated with international, regional and Oman based experts to select and appoint dedicated and highly skill staff who are well experienced experts in Banking sector and Islamic Banking. We also continue to invest in our people in the form of internal and external training programs so that they develop a better understanding of banking products in general and Sharia' compliant products in particular.

#### **MAJOR ACHIEVEMENTS**

During, the course of the establishment of the Bank and 31<sup>st</sup> December 2013, there were several hurdles overcome and achievements with all members diligently working towards ensuring Bank Nizwa's success; of these achievements there were those that fulfil the vision of the Bank to be a customer centric institution. To that end the following were our key accomplishments that lay the stage for the Bank's next step.

- The Bank successfully launched the first instant issuance of cheque book and debit card in the Sultanate. Our customers no longer have to wait after opening an account but walk out of their branch with both in hand.
- The Bank has launched its investment banking division and full suite of corporate banking products along with trade finance.
- To cater to the housing needs of the community the bank launched murabaha and ijarah housing financing for ready properties and recently launched under construction finance.
- As part of ensuring service quality is superior we successfully hired a team of two hundred and thirty six professionals to continue to build the franchise.

#### **FUTURE PLANS**

As we look back on the financial and nonfinancial performance of the Bank, it is clear that we have made history and the progress has enabled us to enter 2014 in a strong position which will help focus on enhancing the balance sheet further and achieve profitability in the near future.

The Bank was awarded an investment banking license in 2013, with this license in place the Bank is already working on several initiatives that will come to fruition in 2014. These initiatives will provide the first Sharia compliant Islamic investment opportunities that have only been available previously outside of the Sultanate.

In line with one of the visions of the Bank, our electronic banking platform will provide value added services that will be competitive to the solutions currently available. Our Wholesale Banking will be completing several initiatives which include cash management and web based trade solutions, our Retail Banking after the successful launch of the Debit Card will be launching Sharia' compliant credit cards that cater to different segments of the population.

The people of the Sultanate and the businesses operating here are the cornerstone of success for Islamic banking and our Bank. We will continue to invest in promoting and increasing the penetration of Islamic banking across the Sultanate. Our human capital is critical in ensuring we live up to the promise and therefore we will invest strategically in the development of this asset to the eventual benefit of the Bank and the Sultanate. We will continue to build on the customer centric focus with training in Islamic banking, use tools like assessments, functional and cross training, leadership and executive development to enhance the skills and meet the career goals of our team. On-going development of our national resource will continue to be a long term strategy of the Bank.

#### **CORPORATE GOVERNANCE**

As part of the Annual Report for the year 2013; is included a comprehensive report on Corporate Governance duly certified by the statutory auditors. 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.

#### **CORPORATE SOCIAL RESPONSIBILITY**

As a visionary leader, Bank Nizwa aims to play a pioneering role by supporting social, economic, and industry-related activities and initiatives in the Sultanate through constructive collaborations with a multitude of prestigious local and regional organizations. As the first Islamic bank in the Sultanate, the bank participated in various initiatives throughout its first year to elevate and advance Islamic financial knowledge and develop future leaders.

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 supported us in the challenge of establishing the first Islamic Bank and thank them for their continued patronage and trust in Bank Nizwa.



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Amjad Mohammed Al Busaidi  
Chairman