

Management Discussion & Analysis Report

(For the financial period ended 31st December 2016)

The Management Discussion and Analysis Report is a detailed overview of Bank Nizwa's business for the fourth financial year which covers the period from January 1st 2016 to December 31st 2016.

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 Shari'a-compliant products and services.

Poised for Growth

The Islamic finance sector in Oman witnessed unparalleled growth over the last Four years. With two full-fledged Islamic banks and six Islamic windows, Shari'a compliant banking assets accounted for 10.2% of Oman's total banking assets in 2016 and are projected to reach 15% by 2018. The financing assets of Islamic Banks have grown to OMR 2.4 Billion (35% since December 2015) and deposit has grown to OMR 2.1 Billion, an increase of 41% since December 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 and as a result the Bank achieved a historical milestone by recording net profit for the first time since its inception. During the year the Bank identified key opportunities, critical areas of improvement and subsequent tactical plans that helped retain its position as the largest full-fledged Islamic Bank in the Country. We have strengthened our position Wholesale and Retail Banking not only in terms of our leadership in key business segments, but also in terms of service excellence, franchise strength and business capabilities.

The operating environment of 2016 was challenging in terms of liquidity and profitability. However, the Bank continued to take a rigorous approach in planning and tracking its spending in 2016 by restructuring its costs to address narrowing margins. Despite, growth in operations, the Bank's operating expenses were managed in line with income growth, thereby improving the headroom between cost and income growth. The improvement of the Bank's cost to income ratio on a monthly basis is the result of our transformation initiatives across our High-Five strategies.

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 period for the Banking industry and the overall economy with the drop 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

Global economic activity remained largely subdued in 2016. Accordingly, economic growth in Oman likely slowed in 2016, as low oil prices and fiscal consolidation took their toll. While oil prices did recover from the lows in the early part of 2016, the average oil price still fell by more than 10% last year. The drop in oil prices in 2015 and 2016 have led governments across the region to embark on efforts to rationalize spending and diversify the source of budget revenues. The Omani government's continued public spending has helped underpin an overall economic growth of an estimated 1.7% in 2016. The government also made adjustments in its medium term fiscal consolidation plans.

The government has been running a budget deficit and this deficit is expected to continue for some time in the future. However, Oman's net debt position relative to the GCC countries remained manageable, however the IMF predicts that the trend will deteriorate in the coming years. The government's initiative of diversification of the economy has created a positive business environment and increased economic activity. As a result, credit grew by 10% during the year.

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 2017-18.

OUTLOOK FOR THE BANKING SECTOR

Despite dwindling oil prices and expanding budget deficit, the banking sector continued its trajectory of growth. Total Credit of the Banking sector crossed OMR 22.1 Billion by the end of Dec 2016 thus registering a growth of OMR 2 Billion or 10 percent during the year. On the other hand, due to the decline in deposits from government entities the growth in total deposits held with banks slowed to 5.1 percent. The credit-to-deposit ratio soared to 107.9 per cent at the end of December 2016 from 102.5 per cent a year earlier.

The banking sector remained resilient supporting the economic diversification initiatives and credit needs. The stability of the banking system stayed intact as the banking sector remained well capitalized, profitable, and fairly liquid with low infection ratio. Overall banking sector NPL ratio of 2.1% suggests satisfactory asset quality and a well contained credit exposure.

The Omani government will cushion the impact of low oil prices on the economic growth by maintaining high levels of public spending despite its lower oil related revenues. Consequently, we expect real GDP growth to improve gradually to 2.5% in 2017. This reflects the economy's reliance on general government expenditure, which accounted for an estimated 49% of GDP in 2017. Slower economic growth will subdue credit demand, thereby softening the lending growth to 8%-10% in 2017.

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 Shari'a-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 Shari'a compliant products including savings and current and Investment deposits accounts as well as home, personal and auto finance solutions.

The Wholesale Banking Division serves the needs of the government sector, government-owned entities, corporate and commercial clients as well as small-and-medium-enterprises (SMEs) through innovative structured working capital, long-term financing and trade finance facilities.

KEY DEVELOPMENTS IN CORE SEGMENTS

Retail Banking

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

2016 has been year of consolidation for Retail Banking whereby a number of initiatives were launched to enhance the customer experience and consolidate our position as the leading Islamic Bank. Adding to our existing product suite, we launch our Commercial Finance proposition, targeted towards the needs of Salaried individuals, aspiring to have additional income by investing in commercial assets. Our Credit Card, which was launched towards the end of 2015, has been well accepted by customers.

To enrich the customer convenience we introduced various new services across all our electronic platforms namely IVR/Phone banking, mobile banking, internet banking, ATM/CDM machines, SMS and Email. All these initiatives helped us increase our e-channel penetration and usage across all customer segments and has helped bring the bank closer to its customers. These digital channels provide convenience to customers and allow them to access their bank accounts from anywhere, anytime at their convenience.

During 2016, the Bank also took major steps to make card transactions more secure. EMV chip debit cards are a much more secure alternative to the traditional magnetic strip. EMV based Credit and debit cards offer significant protection against fraud even when a PIN is not used. Chip technology, with or without a PIN, prevents counterfeit fraud, which represents the biggest category of payment card fraud worldwide. The bank successfully managed to migrate all Bank Nizwa active cards to EMV compliant chip by 31st December 2016. This ensured the protection of our customers against counterfeit frauds.

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

During the year, Retail Banking further consolidated its position as the leading Islamic Bank in Oman by increasing its customer base (in 2016) by over 25%, 33% increase in Retail deposits and 50% growth in assets. All the 11 branches (located at geographically-strategic locations across Oman) continue to provide excellent service and the best possible financial solutions by analyzing the customer need and profile.

In 2017, the Bank aims to further expand its network and customer-base through value-added services and by offering a rewarding and enriching experience.

Wholesale Banking

The Wholesale Banking Group was restructured in the year 2016, to further enhance the commitment of providing dedicated, tailor-made services for our corporate clients. A dedicated team for corporate client services has been established to ensure speedy services, quick Turn Around Time (TAT) and interdepartmental coordination. In addition, the Project Finance & Syndication department merged with the team catering to large corporates to ensure synergy, efficient risk appraisals and coordination. A dedicated team operating under the Investment Banking department was formed to cater to Government business.

Corporate Banking

The Corporate Banking department recorded a substantial increase in assets and net profit for the year 2016. During the year the team covered some of the main industry segments including construction, manufacturing, contracting, and automobile. Despite the drop in oil prices and its effect on the overall economy, the corporate banking team continued to make significant strides throughout the year backed by exceptional customer relations and brand presence. With tailor made Shari'a compliant products, the bank successfully acquired many corporate clients during the year in review. Going forward the bank will continue to expand its corporate business to focus on key cities across the Sultanate including Sohar, Salalah, and Nizwa.

Project Finance

Launched in 2015, the Project Finance and Syndications unit represents a new business function under Wholesale Banking. Since its launch, the department has done tremendously well having closed a number of milestone transactions in the Oil & Gas, Building Material, Waste Management and Industrial Sectors. The team is actively working to carve out a niche market and play an active role in the Sultanate's Project Finance & Syndication market. The Bank has several other transactions in the pipeline planned for 2017. This area of business is crucial not only to the Bank, but also for the industry and mainly in the infrastructure and utilities sector, where the Bank offers 100% Sharia-compliant solutions.

SME and Commercial Banking

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

Trade Finance

The bank provides Sharia-compliant Trade Finance solutions to meet the needs of a wide range of customers locally and worldwide. To date, the number and value of transactions have grown by 42% since 2015 and 142% since 2014, which led to a growth in the operational income from trade finance by 68% since 2015. On the other side, LC Murabaha financing transactions have grown by 142% since 2014.

The Trade finance function will continue working towards its vision of being the best provider of trade services in local markets, by delivering the professional services to help customers succeed in their trade and to support communities to thrive.

Global Markets

During the year under review, the Global Markets function had placed emphasis on funding and liquidity to further compliment deposit and asset growth. The above exercise supported the Bank's objective of increasing awareness on the Islamic Banking offering. The Global Markets function continued to strengthen its foreign exchange operations which in turn increased its revenue stream. Despite the challenging market environment, the Sukuk portfolio continued its steady contribution to the Bank's income stream. As the market for such products picks up in terms of traded volume and new issuances, the Global Markets function aims to be ready to play its next role as a market-maker in the local market in the near future. Treasury operations also fall under this division.

Investment Banking

Investment Banking continued to do well within its scope to enhance the Bank's earnings in 2016. Investments in several asset classes are performing respectably and yielded stable recurring income with some expected to deliver superior long-term returns. Investment Banking continues to embark on advisory services and had expanded its role to support asset booking and deposit growth including in the area of Government business. The continuous contribution and support from Investment Banking adds strength and diversity to the wholesale business, delivering other sources of revenue streams apart from credit exposures.

International Banking (Financial Institutions Group)

International Banking (FI) focuses on building and maintaining relationships with Financial Institutions across the globe to ensure smooth Trade inflows and outflows.

In 2016, Bank Nizwa continued building strong connections with local and International Banks around the world. Our aim is to provide access to our clients, corporate and institutional, to the international network for trade and payments, and to the state-of-the-art products by the "Big" banks.

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

Risk Management

Bank Nizwa's Risk Management has been proactive and instrumental in identifying existing emerging key risks and risk drivers, measuring and managing such risks against the backdrop of the changing macro-economic conditions and assessing and influencing the Bank's forward-looking strategy.

The Bank is inherently exposed to various types of risks in carrying out its business activities. The Bank has a sound and strong Risk Governance built upon risk-based decision making principles across all levels of the organization. The Bank has a disciplined approach in managing risk and reward to assure that it 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 took several initiatives to review and enhance policies and processes to manage the emerging risks, improve efficiencies and customer service aligned to business strategy and risk appetite. In anticipation of the slowdown, timely measures were taken to tighten underwriting standards, increasing focus on long-term stable liquidity, new client selection and strengthening of underwriting terms and conditions to maintain the quality of asset booking. Periodic stress tests and review of the portfolio by segments and sectors were undertaken to identify and proactively manage the portfolio through a robust and well ingrained early alert process existing approved risk policies and adjusted them to changing regulatory and economic environment.

The Bank's Risk Management Group proactively monitored portfolios and implemented strategies considering the external environment, focusing its areas of growth on selected segments. The Bank's risk approach is aimed to support portfolio growth within acceptable risk thresholds and ensure that objectives of well controlled balance sheet are met. The Bank made progress in building balance sheet growth in assets. The Bank has taken important initiatives to diversify portfolio and ensured that portfolio position across products are stable. Credit losses in retail and wholesale banking assets are well within risk appetite and allow sufficient loss absorption capacities in products to expand. Financial performance of all the assets is robust and all products generated healthy returns. The Bank will continue to focus on diversification of banking portfolios while maintaining the current risk level.

A critical component of risk management is liquidity risk. Therefore, the Bank developed policies and monitoring tools that enable management to assess liquidity gaps through a cash flow and static approach, reserve against deposits, financing ratio, mitigation of liquidity risk and contingency measures. During the period in review, the Bank successfully implemented Basel III Liquidity and Capital Standards to meet regulatory requirements.

A risk that is inherent in the Bank's daily operations is defined as 'Operational Risk'. To minimize this risk, an Operational Risk Management Policy was adopted and critical controls were implemented and enhanced as and when required at all levels of the organization. During the period in review, the Bank also conducted bank-wide 'Risk and Control Self-Assessment' to capture and assess all key processes and controls to address operational risks within various businesses and support functions. During the period, the Bank also successfully conducted limited scope Business Continuity drill to ensure continuity of business in an unforeseen event for critical functions.

The Bank conducted its annual Internal Capital Adequacy Assessment Process (ICAAP) and a forward looking stress test during the period under review. This process provides the Bank with an assessment of the potential risks and capital requirements under stressed scenarios, and through this exercise has developed a systematic approach to manage its capital requirements during the time of stress. The report is approved by the Board of Directors and submitted to Central Bank of Oman (CBO). The Risk Management team actively tracks the developments from the Basel Committee on Banking Supervision on the global regulatory frameworks and CBO on-going guidelines for local regulations. The Bank progressively integrates relevant aspects of both the frameworks and regulations to build a more resilient Bank in Oman. Currently, the Bank is embarked upon development of infrastructure for implementation of International Financial Reporting Standards 9 (IFRS 9) so that the Bank is fully ready to go-live in 2018 as per the directive of CBO.

Raising Awareness

Since its inception in 2013, Bank Nizwa has maintained a long-standing commitment to raising awareness on the concepts and principles of Islamic finance and sharing its multifaceted benefits with people across the Sultanate. Spearheaded by a wide variety of workshops, roadshows, forums and discussion groups, the bank's efforts have reached thousands of people ranging from higher education students to public and private sector entities.

In 2014, Bank Nizwa launched the 'Islamic Finance Knowledge Series', a nationwide campaign designed to reach out to local communities across Oman and empower them with knowledge of Islamic finance. This nationwide roadshow visited various colleges and universities, including Sultan Qaboos University, Sohar University, and Shinas College of Technology among others. Then, the bank targeted government employees, sharing its expertise with public sector entities such as the Ministry of Endowments and Religious Affairs, the Ministry of Education, and the Sultan Qaboos Islamic Studies Institute. Extending into 2016, the bank was able to reach thousands of public sector employees and students through the initiative.

Determined to use its profile as the Sultanate's leading Shari'a-compliant bank to inspire the next generation to live financially secure lifestyles, Bank Nizwa has also earned a reputation for sharing its expertise with undergraduates from some of the most prestigious international universities. The bank has welcomed dozens of visitors from the National University of Singapore, the University of Washington, and Paris Dauphin University in 2016 alone.

In addition, the bank has remained focused on bringing Islamic financial solutions to more local communities. Inspired by that drive, it introduced its first branch-on-wheels, which visited tens of cities across the country. The mobile branch brought its own team of experts,

ATM, and a host of products and services to communities throughout the Governorates of Muscat, Al Dakhiliyah, Al Sharqiya, Dhofar, Al Batinah and Al Buraimi.

Underpinning Bank Nizwa's commitment to growing Islamic finance in Oman has been its consistent efforts to work with stakeholders to reach new audiences. As a result, the bank was successfully launched and completed the 'Islamic Finance Summer Course' at Sultan Qaboos University in collaboration with the Central Bank of Oman.

Seeking help drive business growth, Bank Nizwa has also reached out to Oman's entrepreneurial community by sponsoring events such as the inaugural Oman Franchise Expo and Conference. The bank has also been able to reach out and empower a growing number of small and medium sized businesses in the Sultanate through its recently launched SME Banking Unit.

Corporate Social Responsibility

Guided by the principles of Shari'a and a firm dedication to give back to Omani society, Bank Nizwa has taken a leading role in promoting the social development of local communities. Since its inception in 2014, Bank Nizwa's Masoliyati program has successfully served as a volunteering platform founded under the theme of 'Responsibility'. Through Masoliyati, Bank Nizwa, staff has embraced opportunities to champion charitable initiatives across the Sultanate. To date, the program has successfully launched a number of high-impact projects including its annual Iftar Sa'em outreach program organized every Ramadan, clean-ups designed to preserve Oman's natural and historic treasures, as well as six blood donation drives that have provided blood banks in the Sultanate with urgently needed plasma.

Bank Nizwa continues to collaborate with local, regional and international stakeholders to affect change, resulting in collaborations with Dar Al Atta'a, one of Oman's largest non-profit organizations, the Nizwa Municipality and the Ministry of Heritage and Culture.

Awards & Accolades

Bank Nizwa's exceptional customer service and the high-quality of its tailored Islamic financial solutions have resulted in critical acclaim over the years. In 2016 alone, the bank's longlist of accolades include 'Strongest Islamic Retail Bank' in the Sultanate at the Islamic Retail Banking Awards, 'Best Employee Retention and Motivation' and 'Call Center Manager of the Year' awards during the 2016 INSIGHTS Middle East Call Centre Awards, 'Best Performing Islamic Bank in Oman' for the second year in a row during the 23rd Annual World Islamic Banking Conference (WIBC) and 'Islamic Bank of the Year' by the leading Corporate Livewire Finance Awards.

Shari'a Governance Processes

Compliance to Shari'a principles and standards are inherently built into the Bank's products and services by following a comprehensive Sharia Governance framework comprised of several key elements listed below that sets the standards and practices that ensure Sharia compliance:

1) Islamic Banking Regulatory Framework (IBRF)

A 'rule book' issued by the Central Bank of Oman on Islamic banking practices that sets guidelines on Shari'a governance, concepts and general product features which are permitted in Oman for Islamic banks.

2) AAOIFI Standards

Shari'a, 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 Shari'a compliance in the Islamic banking sector. Shari'a resolutions which are not available in the AAOIFI Shari'a standards are covered by resolutions from SSB.

3) Shari'a Supervisory Board (SSB)

SSB members are well-respected Omani and International Shari'a scholars who review and provide Shari'a resolutions and Fatwas on all products and related processes. This is in addition to overall Shari'a supervision to ensure that Bank Nizwa transactions and operations are Shari'a 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 Shari'a Executive Committee comprises of Sheikh Al-Gharbi and Sheikh Al-Sawwafi, which meets on monthly basis to review Bank's business from a Sharia perspective and accommodate current business requirements. Shari'a Ex-com resolutions are based on previous SSB Shari'a guidelines and Fatwas.

4) Shari'a Compliance

This function provides Shari'a review and supervision for business transactions and support function activities before execution (*ex-ante*) to confirm that structuring has been concluded based on IBRF, AAOIFI, and SSB Shari'a guidelines and controls. Shari'a Review Reports are prepared to document this supervision activity. To support the Sharia compliance activity, Shari'a 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 Shari'a non-compliant transactions are diverted to charity as per SSB guidelines.

5) Shari'a Audit Function

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

6) External Shari'a Audit

As required by IBRF, the Bank appoints an independent and qualified external Shari'a Auditor to audit the activities of the Bank on an annual basis.

7) Shari'a Training

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

As part of the HR strategy, the Bank implemented the Human Resources Management System (HRMS) that drives the employees' performance into achieving the bank objectives by providing efficient and effective automated services to its employees as well as supporting the management with strategic decisions.

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 90.2 % during 2016.

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 700 training opportunities by conducting around 115 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

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

With state-of-the-art technology throughout, and a range of interactive customer experiences & following a rigorous auditing process of its data protection capabilities, Bank Nizwa has achieved and became certified as ISO/IEC 27001:2013. Bank Nizwa is the only Islamic bank in the Sultanate of Oman that has acquired the prestigious information security certification; this provides additional assurance to our customers and stakeholders on BankNizwa's commitment to handling sensitive customer, card and transactions.

The bank implemented several projects in line with the Bank's strategic objectives. The projects implemented this year showcased the benefit market-leading technology can bring to both customer and back office processes. From our achievements this year we will work towards streamlining more of the Bank's process and providing our customers with efficient straight-through processing on a larger range of products. New and upgraded technology has improved user experiences for our customers and

reduced operational costs, enhancing stakeholder confidence in IT and its contribution to the long-term success of the Bank.

Going Forward

The outlook for 2017 is encouraging, particularly following OPEC's agreement to cut oil production in the first half of this year. The decision has provided support to the oil price and it is expected that oil will be at an average price of USD 55 per barrel in 2017, up from USD 45 per barrel in 2016. As the Omani government is diversifying the economy and following the Tanfeedh program, investment in major transport, manufacturing, hospitality, tourism and infrastructure should underpin economic growth in the coming years.

Nevertheless, there are several headwinds facing the services sectors of the economy, including continued strength of the US dollar as the Federal Reserve is expected to raise interest rates during the year. Travel and tourism, wholesale and retail trade are particularly vulnerable to movements in global FX markets, as emerging market currencies are expected to remain under pressure as US rates rise. This will also create pressure on cost of borrowing from international market.

As we progress into 2017, it is evident that the prevailing conditions are an extension of 2016. There is no doubt that more significant headwinds for us to face this year, but we are encouraged that we have a framework of High 5 priorities built around balance sheet management and capital efficiency to steer the Bank in the right direction. The focus on productivity and efficiency will certainly continue into 2017 as we aspire to establish a sustainable and efficient operating model for the Islamic Banking industry.

Although we can't control the external environment, we know we can control our internal processes and risk framework to proactively manage asset quality. That will be our approach in the current environment, with more prudent credit underwriting. We will continue to grow our balance sheet in a controlled manner, through diversification of income sources and expansion of our product and client base. This year, we plan to continue our cross-sell efforts in the Retail business and focus on market share expansion. We will further increase our market share in both Wholesale and Retail Banking segments and will strengthen our efforts to diversify the assets and liabilities portfolio to include a broader representation of multiple sectors and segments, and increase fee and commission income by enhancing our Trade and Treasury activities.

With a solid business and the right strategy in place, we will focus on enhancing capabilities and synergies across our business throughout 2017. We will continue to strengthen our channels of distribution through technological advancement and invest in our people to support future growth.

We will continue to be creative and innovative in the sector, consistently setting ourselves apart from our peers. We will control costs efficiently and always look for ways to build value for our businesses, improve shareholder returns, offer the best products and services to our customers and continue to turn challenges into opportunities in an ever-evolving operating environment. We are fully committed doing the right things right and making our 2017 journey an impactful one.

In closing, I would like to acknowledge that we would not have achieved our milestones in 2016 without the contribution of our employees and I wish to thank them for their commitment to our vision and performance. Our achievements would not have been possible without the support and guidance of the Central Bank of Oman, the Chairman, Sayyid Amjad Al Busaidi, the Vice Chairman H.E. Sheikh Ahmed Al Rawahi, the Board of Directors and the Executive Management team for their support, guidance and efforts as we continue our journey to grow our market share. Most importantly, I would also like to

express our appreciation to our customers and shareholders for their continued trust, loyalty and support rendered throughout our journey. I look forward to another exciting year ahead.

Khalid Al Kayed

Chief Executive Officer