

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD
ENDED 30th September 2017**

Dear Shareholders,

Assalamu'alaikum Wa Rahmat Allah Wa Barakatuh,

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 30th September 2017. These are based on the unaudited condensed interim financial information which has been reviewed by our external auditors.

The first nine months of the year were encouraging for Islamic banks as the Islamic finance sector witnessed continuous growth which outperformed the market. We believe that this upward trajectory indicates the importance of the Islamic finance sector which has an enormous potential to grow despite the challenges it faces.

The bank delivered a good set of results in the third quarter of 2017, in spite of challenging operating conditions. The Bank recorded 40% growth in assets 32% growth in revenue from last year during the same period, driven by healthy activity across our various businesses and notable improvements in cost efficiency. During the period the Bank was recognized as a Pioneer of Islamic Banking at the 7th Global Islamic Finance Awards in Kazakhstan which is a testament to the efforts across diversified areas, including its development of Islamic banking in the Sultanate.

During the quarter, the bank moved ahead with its digital agenda and strengthened its retail offering. We successfully launched Wealth Management Services and a 3D secure solution to enhance the security of our credit cards. In addition to this, the Bank's primary focus was on growing the balance sheet in a controlled manner, diversifying revenue streams, control on expenses, improving margins, and expanding products and client base. This is in line with our strategy 2020 which will allow us to take advantage of the growth opportunities in preferred industry sectors and confidently operate in the current environment with challenges that present themselves.

We are confident that the Bank's unchanged strategic pillars and resilient balance sheet leaves us well placed to manage any economic headwinds, whilst continuing to deliver good returns for our customers and improved values for our shareholders.

FINANCIAL PERFORMANCE

The bank's total assets as end of September 2017 reached 652 Million Omani Riyals this has made a growth by 40% compared with the same period September 2016, representing a growth in gross financing portfolio by 38% to reach 531 Million Omani Riyals while total customer deposit portfolio reached 486 Million Omani Riyals recording a significant growth of 62%. This growth in financing portfolio in both businesses, retail and corporate, has provided the momentum needed to continue our growth trajectory. This momentum will enable us to achieve our long term objectives.

Total revenue grew by 32% over the same period in 2016 while operating expenses increased only by 4%. This has led us to achieve a net profit after tax of 2.3 Million Omani Riyals. This is considered an important milestone towards meeting the Bank's strategic plans of improving the performance and write-off the accumulated losses. Despite the more challenging year for liquidity, the Bank's balance sheet remains strong due to excellent asset quality and robust capital ratios.

FUTURE OUTLOOK

Oman's economy growth is expected to recover and it is projected that the banking sector credit will continue to grow, however operating environment will be challenging with fiscal consolidation amid prolonged oil price weakness weighing on economic growth. The government's initiative of diversifying funding sourcing, tapping the international market has eased pressure on local liquidity however, increased cost of funding still remains challenging for the sector.

Industrial and service sectors are expected to become better from the fourth quarter of this year. This is mainly due to several positive factors, which include additional gas supply from BP's Khazzan field, stability in oil prices and an improvement in investor sentiment. As the government moves further on the development projects and private sector involvement in the process will continue to increase demand for credit. It is expected that the slowdown in the economic growth will reverse during the next year where according to IMF, 3.8 per cent growth is forecasted for GDP.

We expect that OPEC will extend its deal until the end of 2018, however, compliance with the OPEC production cut deal to decline as we move into 2018 as there are few signs it has been successful in rebalancing markets, or that it will have more of an effect in the last quarter of 2017. A resumption of production growth by major oil producers will be another hurdle for oil prices and this will dilute possibilities for significant recovery in oil price in the remainder of 2017 and in 2018. We expect producers will be wary of accepting further declines in domestic economies in the effort of balancing the global crude market. US crude exports bounced strongly, chasing higher international prices. In case of more production growth from the US next year and more Texan oil hitting OPEC's key markets, which could result in downward revision of oil price forecast will widen the external and budget deficit forecasts for next year.

For the remaining period of 2017, the Omani economic environment and specifically the banking sector will continue to capitalize on its key competitive advantages to show further resilience in a volatile global economic backdrop. In addition, Oman will continue to follow diversification initiatives in a bid to reduce reliance on oil exports. The government plan to liberalize prices on energy and other goods and services, supported by the Value Added Tax, offsetting downward pressures on energy prices. This is in line with the government's vision in regards to gradual fiscal consolidation. Taking advantage of the expansion of economic activity and the government's initiative of diversification, the Bank's strategy is well set to keep Bank Nizwa on the growth path.

We are fully confident that the Bank is on a right track to capture future opportunities, support sustainable growth and continue to maximise shareholder value.

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.



Amjad Bin Mohammed Al Busaidi
Chairman