

CHAIRMAN'S REPORT

For the financial period ended
31 December 2017

Sayyid Amjad Mohammed Al Busaidi
Chairman



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 2017. These results are a testament to the ambition we have as the first Sharia compliant bank in the Sultanate, as well as our passion to go beyond excellence. The year 2017 will be remembered as a year of historical milestones for the bank. The most encouraging developments in the year include the bank's recording of net profit from the beginning of the year and its recognition as the 'Pioneer Islamic Bank in Oman', 'Strongest Islamic Retail Bank' and 'Best Islamic Services and Products in Oman' by reputed regional and international agencies. These achievements are a reflection of our position as the largest and fastest growing full-fledged Islamic bank in the Sultanate. In this message, I am pleased to highlight the progress we made in 2017 towards achieving our strategic ambitions, and to set out our plans for 2018 and onwards.

In 2017, the business environment continued to be challenging for the financial services industry, as a result of slow growth in key economic sectors, tightened liquidity position, and increased competition in the market. Despite the challenges, the year proved to be encouraging given the consistent growth in the Islamic finance sector. The growth in the sector has out-performed the market and we believe that it has enormous potential and opportunities to grow in the future.

Against this backdrop, your Bank has turned in a commendable financial performance by registering a net profit of 3.8 million Omani Rials. This is the result of executing our 2020 ambition and related growth strategy, and our ability to adapt to the economic realities including the competitive environment in which we operate. This milestone was achieved while focusing on our commitment to provide unsurpassed customer experience and adhering to the core values that formed our institution.

While navigating a challenging business environment in 2017, we remained focused as a Sharia compliant financial services provider in accordance with clear principles and values. We particularly adhered to our commitment of operating responsibly and sustainably in the interests of our shareholders. The Bank's CSR initiatives have gained due recognition with an award for 'Excellence in CSR in Islamic Finance' in Oman endorsing our efforts to continuously enhance and impact the community to further improve financial wellbeing of our people and the broader community.

During the year our primary focus was on growing our balance sheet in a controlled manner, diversifying revenue streams, and expanding our products and client base in addition to enhancing delivery channels. This is in line with our strong determination to take the Bank Nizwa success story to the next level.

We will continue to demonstrate a strong and resilient business model, built upon strategy aiming to deliver a solid financial performance across businesses through a customer-centric approach, a stable and conservative liability base, a culture of service excellence and efficiency, diligent risk management and highly talented employees as per the bank requirements.

FINANCIAL PERFORMANCE

The focus on balance sheet management has been a key priority for the year. The Bank's total assets grew by 35% to reach 697 Million Omani Rials compared to 516 Million Omani Rials last year. Gross financing portfolio grew by 41% to reach 568 Million Omani Rials while total customer deposit portfolio reached 526 Million Omani Rials recording a significant growth of 50% year-on-year. 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.

Operating income for the year 2017 increased by 29% whereas operating expenses have increased by only 4% reflecting dedicated and strategic efforts in cost management. This has led us to achieve a net profit after tax of 3.8 Million Omani Rials. 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

2018 began with the optimism that had started from last year. Regional governments are embracing more expansionary policies and financial markets are being boosted. 2017 ended with constructive economic data, kick-starting a strong entry into 2018.

With robust global growth, the Omani economy growth is expected to recover and it is projected that GDP will grow by 3% with the banking sector credit expected to grow by 8% to 10%. This is driven by oil price recovery and efforts to diversify the economy and improve the investment climate. The GCC economies are anticipated to lead stronger growth in the region, supported by easing fiscal adjustment, infrastructure investment and reforms

to promote non-oil sector activity. Strengthening private consumption and investment are anticipated to support stronger growth in the region. Growth among the GCC countries as a group is forecast to pick up to 2% in 2018 from 0.7 percent in 2017.

Prudent fiscal management will continue in 2018 as the budgeted deficit is kept on track as planned. The budget is based on a conservative oil price of US\$ 50/bbl., which is the average realized price in 2017. Oil markets will continue extending their gains from 2017. While we expect oil prices to be higher on average in 2018, the Government will continue its rationalization of government expenditure and focus on increasing non-oil revenues and controlling public spending. Despite the continued economic challenges posed by geo-economic factors, GDP growth is achievable if the Government accelerates the reform process including issuing the new public private partnership (PPP), foreign capital investment and bankruptcy laws to foster private sector participation. However, weaker than expected oil prices could cloud growth prospects.

Given that the private sector is expected to play a pivotal role in capital formation, the focus of the government is not only to improve the investment climate and promote public private partnership but also to give significant support to the small and medium enterprises by allocating some of the government projects to this sector and to ensure the swift implementation of the National Programme for Enhancing Economic Diversification ('Tanfeedh') initiatives. The positive recent fiscal and government initiatives providing support to the economy will increase demand for credit. The outlook for 2018 remains positive with numerous sectors expecting growth such as manufacturing, tourism, logistics, mining, fisheries, and trade.

The Sultanate's economic environment and specifically the banking sector will continue to capitalise on its key competitive advantages to show further resilience in a volatile economic backdrop. In addition, local authorities are working on enhancing the Omani model as the government has postponed the implementation of Value Added Tax (VAT) until 2019 which will help the government observe the experience of neighboring countries. However, the Government will start selectively taxing some goods in mid-2018 in line with its vision of gradual fiscal consolidation.

Going forward, we will continue to look for opportunities for growth whilst ensuring that we maintain our speed and focus to safeguard shareholder interest. With a solid business model, strong fundamentals and the right strategy in place, we will focus on enhancing capabilities

and synergies across our businesses throughout 2018, as well as diversifying our customer base across product and service lines. We are also continuing to strengthen our channels of distribution through digitisation and investing in our people to support future growth.

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

ACKNOWLEDGEMENT

On behalf of the 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. I look forward to 2018 being another successful year for Bank Nizwa.



Amjad bin Mohammed Al Busaidi
Chairman