

MANAGEMENT DISCUSSION & ANALYSIS REPORT

For the financial period ended
31st December 2017



Khalid Al Kayed
Chief Executive Officer

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 1, 2017 to December 31, 2017.

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 Sharia compliant products and services.

POISED FOR GROWTH

The Islamic finance sector in Oman witnessed unparalleled growth over the last five years. With two full-fledged Islamic banks and six Islamic windows, Sharia compliant banking assets accounted for 12% of Oman's total banking assets in 2017 and are projected to reach 15% by 2018. The financing assets of Islamic banks have grown to OMR 3.03 Billion, an increase of 25% since December 2016 and deposit has grown to OMR 2.9 Billion, an increase of 36% since December 2016. 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 from the beginning of the year. 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 in 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 2017 was challenging in terms of liquidity and profitability. However, the Bank continued to take a rigorous approach in planning and tracking its spending in 2017 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.

The Bank's balance sheet continued to strengthen, with further improvements in capital, liquidity and a stable credit

quality profile. Good progress was made in advancing our digital agenda and we are pleased to be recognized for our achievements by reputed regional and international awarding agencies. 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.

COUNTRY ECONOMIC & BUSINESS ENVIRONMENT

Global economic activity remained largely subdued in 2017. Accordingly, economic growth in Oman slowed down in 2017, as low oil prices, rating cut and fiscal consolidation took their toll. While oil prices did recover from the lows, however, the average oil price remained low compared to the required rate for fiscal breakeven.

In 2017, Oman joined most OPEC non-members in participating in oil production cuts, leading to a contraction of the hydrocarbon sector. As public spending declined, non-hydrocarbon GDP growth also slowed down with a knock-on effect on consumption and investment. As a result, real GDP growth slowed down in 2017 compared to 2015 and 2016 where high oil production levels (1 million barrels per day) drove overall growth.

In order to control the fiscal budget, the Omani government embarked on efforts to rationalise spending and diversify the sources of revenues. In addition, adjustments were made in the government's 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 remained manageable and the IMF predicts that the trend will improve in the coming years supported by the growth in GDP. 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 7% during the year.

Oman's current economic situation remains relatively stable. The 2018 budget and government plans for economic diversification will support the government to withstand economic challenges. It is expected that the GDP will grow by 3 percent in 2018-19 and banking sector credit will grow by 8% to 10% which will fuel the country and sector's growth.

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 23.5 Billion by

the end of Dec 2017, thus registering a growth of OMR 1.4 Billion or 6.4 percent during the year. On the other hand, total deposits held with banks increased by 5.6 percent. The credit-to-deposit ratio soared to 109 percent at the end of December 2017 from 107 percent 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 capitalised, profitable, and fairly liquid with low infection ratio. Overall banking sector Non-Performing Assets ratio suggests satisfactory asset quality and a well contained credit exposure.

The Omani government will cushion the impact of lower oil prices on the economic growth by maintaining high levels of public spending despite its relatively lower oil related revenues. Though with the increase in oil prices, government revenues are increasing. Consequently, we expect real GDP growth to improve gradually to 3% in 2018. This reflects the economy's reliance on general government expenditure, which government has committed to limit its spending to not exceed more than 40% to 45% of GDP in 2018. Improving economic growth will create credit demand, thereby expecting the credit growth to 8%-10% in 2018.

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 Sharia-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 centre, 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 Sharia 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.

2017, being a difficult year for the economy, we consolidated our base and took a number of initiatives to enhance the customer experience and strength our position as the leading Islamic bank. Adding to our existing product suite, we launched our Wealth Management segment, introduced the Recurring Deposits scheme, Ready Property Murabaha and FX services.

Bank Nizwa's Wealth Management offering is an acknowledgement and appreciation of the depth of our customer's relationship with Bank Nizwa. Our Wealth management services offer a range of exclusive products, benefits, and discounted rates tailor-made to suit the needs of our clients.

Our Cards provide a range of offers and discounts available at various merchants locally and regionally. In 2017, we launched an "Offers" mobile application which captures all our discounts and offers on one convenient platform.

Moving towards financial inclusion and a digital economy, 2017 marked the launch of our 'e-wallet'. The new application is a digital platform that allows customer and non-banking customers to conduct instant fund transfers through their mobiles. To provide customer convenience we introduced various new services across all our electronic platforms namely IVR/phone banking, mobile banking, internet banking, ATM/CCDM machines, SMS and Email.

Continuing with the philosophy of bringing the Bank closer to its customers, we launched our 12th branch at Maabela, Muscat. Strategically located, this branch caters to the residents and businesses of the area. The branch will also be able to cater to the needs of the nearby industrial areas.

In addition, without compromising service quality and customer experience, the Retail division undertook

numerous initiatives to optimise revenue and reduce costs wherever possible.

During the year, Retail Banking further consolidated its position as the leader in Islamic Bank in Oman by increasing its customer base (in 2017) by over 18%, 31% increase in Retail deposits and 20% growth in assets. All the 12 branches (located at geographically-strategic locations across Oman) continue to provide excellent service and the best possible financial solutions by analysing the customer need and profile.

In 2018, 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 revamped at the beginning of FY-2017, to further enhance the commitment of providing dedicated, tailor-made services to 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 assets book recorded a substantial increase for the year 2017. During the year, one of the major milestone in customer service has been the launch of Internet banking for corporate clients. In addition to this, the corporate banking team served all industry segments thus spreading Islamic finance services across the industries. The bank takes pride in the exceptional relations it has built which resulted in maintaining the quality of assets despite subdued economic activity on account of low oil prices for most of the year. With tailor-made Shari's compliant products, the Bank successfully acquired many clients throughout the year from various regions across the Sultanate.

Project Finance

Launched in 2015, the Project Finance and Syndications unit represents a relatively 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 2018. 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 customised 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. As a result of distinguished marketing efforts, we expanded the range of our customers from small enterprises focused primarily on domestic markets to corporates operating globally. In addition to supporting our clients with tailored structured products and services, our support also extends to allow them to grow and operate efficiently. Consequently, in 2017 Trade Finance achieved 70% growth in the volume of trade business compared to 42% in 2016, while the growth in the operational income from Trade Finance increased by 43% in 2017. On the other hand, LC Murabaha financing transactions have grown by 163% in 2017.

Global Markets

During the year under review, Global Markets had placed emphasis on funding and liquidity to further compliment deposit and asset growth. Foreign Exchange operations were also further enhanced resulting in significant growth. The Sukuk portfolio, despite the challenging market environment, also 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, Global Markets aim to be ready to play its next role as a market-maker in the local market.

Investment Banking

Government & Investment banking unit was conceived during the year as an expansion of the existing investment banking business. As the Government continues to drive the nation towards economic diversification and growth,

dedicated banking support is seen essential to serve the Government and its various arms for this objective. The Government & Investment Banking unit drives the wholesale deposit base to support the Bank's asset growth, apart from investment mandates. The continuous contribution and support from the unit adds strength and diversity to the wholesale business in delivering funding sources and other revenue streams. Higher clientele coverage and throughput was able to be achieved through the unit that was instrumental in supporting the Bank's asset growth in 2017. The unit shall continue with the commendable progress made by augmenting clientele reach in 2018 through better utilisation of the Bank's network and channels.

International Banking (Financial Institutions Group)

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

In 2017, Bank Nizwa continued building strong connections with local and international banks around the world to provide access to our clients, corporate and institutions, to the international network for trade and payments.

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

Wholesale Banking Support

The Wholesale Banking Support unit ensures excellent client servicing. The team is a customer oriented division that aims to provide personalised service. Further the team activates internet banking for all client segments to bridge the time and distance gap for the clients as we rapidly spread across Oman. The team coordinates with internal domain specialists to ensure smooth transaction processing and a positive customer experience.

Risk Management

Bank Nizwa 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 the risk-based decision making principles across all levels of the Organisation. The Bank has a disciplined approach in managing risk and reward to assure that the Bank 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) which 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 are 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 in place 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. The Bank as part of implementation of International Financial Reporting Standard (IFRS) 9 efforts, developed, validated and implemented internal obligor risk rating model which takes both financial and non-financial parameter of counterparty for assessment of credit risk. This will further enhance our new client selection capabilities and will strengthen our credit 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. In order to advance further to manage the risk, 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 Organisation. During the period in review, the Bank 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 established a dedicated Business Continuity site and has also successfully conducted limited scope drill to ensure continuity of critical business in an unforeseen event.

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.

Raising Awareness

Since 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. Championing a variety of workshops, roadshows, forums

and discussion groups, the bank's efforts have reached thousands of people ranging from students to public and private sector entities.

In 2014, Bank Nizwa launched its nationwide roadshow called the 'Islamic Finance Knowledge Series' to reach out to local communities across Oman and empower them with knowledge of Islamic finance. This nationwide roadshow made stops in various colleges and universities, including Sultan Qaboos University, Sohar University, and Shinas College of Technology among others.

The bank has been continuously collaborating with a number of reputable Islamic finance institutions to help spread the knowledge of Islamic finance in Oman. In 2017, Bank Nizwa partnered with Takaful Oman and Al Kawthar fund to launch the Sultanate's first of its kind roadshow that shed light on benefits of Sharia-compliant financial tools under Islamic banking, insurance and investment across multiple governorates.

As the Sultanate's pioneer Sharia-compliant financial institution, Bank Nizwa has earned a reputation for sharing its expertise with students locally and from different parts of the world. As a result, the bank successfully launched and completed the 'Islamic Finance Summer Course' at Sultan Qaboos University in collaboration with the Central Bank of Oman. In addition, the bank has also welcomed dozens of visiting students reflecting its strategy to continuously develop the industry and spread understanding of its core principles to audiences regionally and globally. To date, the bank has hosted from some of the most prestigious international universities such as the National University of Singapore, the University of Washington, and Paris Dauphin University to mention but a few.

Determined on making Islamic financial solutions more accessible to the different communities in Oman, the bank introduced its first branch-on-wheels, visiting multiple communities across the country like the Governorates of Muscat, Al Dakhiliyah, Al Sharqiya, Dhofar, Al Batinah and Al Buraimi.

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 Sharia and a firm dedication to give back to Omani society, Bank Nizwa has taken

a leading role in promoting social development and investment through a number of initiatives and programs. Since its inception in 2013, Bank Nizwa's volunteering platform 'Masoliyati', has successfully taken over and embraced numerous 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 blood donation drives that have provided blood banks in the Sultanate with urgently needed plasma. In addition, Bank Nizwa has also focused on the social growth of local communities through engaging educational and enriching activities such as a number of competitions to offer the youth of Oman a platform to exhibit their skills and celebrate the values enshrined in the Holy Quran.

Bank Nizwa continues to collaborate with local, regional and international stakeholders to affect change, resulting in collaborations with non-profit Organisations, municipalities and ministries across the different regions in the Sultanate.

Awards & Accolades

Building on its habit of receiving esteemed awards over the years, in 2017 alone, the bank's long list of accolades included winning 'Pioneer of Islamic Banking' during the seventh annual Global Islamic Finance Awards, 'Best Islamic Services and Products in Oman' award at the third annual Arab Banks Awards and Commendations of Excellence, 'Pioneer Islamic Bank in Oman' award by the World Union of Arab Bankers during the 2017 Innovation & Excellence Awards and for the third year in a row, Bank Nizwa has been honored with 'Strongest Islamic Retail Bank in Oman 2017' during the annual Islamic Retail Banking Awards (IRBA).

Sharia Governance Processes

Compliance to Sharia 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 Sharia governance, concepts and general product features which are permitted in Oman for Islamic banks.

2. AAOIFI Standards

Sharia, Accounting and Governance Standards are published by the Accounting and Auditing Organisation

for Islamic Financial Institutions (AAOIFI) and mandated by CBO; represent a major reference for Sharia compliance in the Islamic banking sector. Sharia resolutions which are not available in the AAOIFI Sharia standards are covered by resolutions from SSB.

3. Sharia Supervisory Board (SSB)

SSB members are well-respected Omani and International Sharia scholars who review and provide Sharia resolutions and Fatwas on all products and related processes. This is in addition to overall Sharia supervision to ensure that Bank Nizwa transactions and operations are Sharia compliant at all times. The Bank's SSB which meets on quarterly basis consists of Sheikh Dr. Abdul-Sattar Abu-Ghuddah (Chairman), Sheikh Dr. Mohammad Bin Rashid Al-Gharbi (Member), and Sheikh Ibrahim Bin Nasser Al-Sawwafi (Member). SSB has established a Sharia 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. Sharia Ex-com resolutions are based on previous SSB Sharia guidelines and Fatwas.

4. Sharia Compliance

This function provides Sharia 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 Sharia guidelines and controls. Sharia Review Reports are prepared to document this supervision activity. To support the Sharia compliance activity, Sharia 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 Sharia non-compliant transactions are diverted to charity as per SSB guidelines.

5. Sharia Audit Function

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

6. External Sharia Audit

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

7. Sharia Training

To ensure that all members of management and staff have sufficient working knowledge of Islamic banking principles and guidelines, Sharia compliance department staff continues to exert major focus on Sharia training so that these principles are understood and practiced. Sharia 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 witnessed higher achievements and stronger performance in 2017.

In addition, and as part of the HR strategy, the Bank maintained the "Succession Planning" program by providing the selected group of high-potential employees with the required functional and technical skills. Furthermore, this group will shortly attain a "Leadership Program" with a leading international Organisation.

People Attraction & Recruitment

In 2017, the bank ended the year with 335 employees. Bank Nizwa continued to identify and recruit new Omani talent in a competitive market. 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

Training & Development

Bank Nizwa believes in the significance of qualifying and training all categories of employees by providing them with the appropriate skills in various banking and management areas, which would in turn enhance their knowledge and experience that enable them to develop their capabilities and expertise thereby enhancing overall performance.

The Bank's strategic training and development initiatives during 2017 focused on continuing to enhance the skills of all employees by providing high-level training in all functional categories across the Bank's various departments and branches. Around 85% of the Bank employees attended more 100 programs with a total of 750 training opportunities provided that focus on Islamic

Banking Training, Risk Management, Wealth Management, Corporate and Retail Banking and International Financial Standards (IFRS). These cutting-edge training programs reflect the latest developments in banking technology; it also helps engaging employees in specialized activities to augment their qualification and knowledge of banking, and to enhance their work values and ethics in line with Bank Nizwa's vision and aspirations.

Moreover, the Bank also worked on strengthening an internal culture of learning and self-development as it provided study opportunities to a number of employees to obtain University and Professional Qualifications from well-known educational institutions and training centers inside and outside Oman.

Compensating & Benefits

Bank Nizwa is developing a workforce to optimize the balance between supply and demand for capabilities, and to manage the cost and employee base more efficiently and effectively in the long term. The Bank's strategic plan is pay for performance.

HR has closely monitored the progress of the implementation of the equity, fairness and competitive pay. The Bank has applied performance appraisal system where annual variable and merit pays of the employees linked with the performance system. The objectives were to determine and appreciate different level of employees are linked with individual level of contributions. Considering the market force and its dynamic changes the Bank participates annually in an Industry Salary Survey with HR professional Service Company to compare its pay position to the market, and make appropriate decision based on the results of the survey to position Bank pay appropriately.

Moreover, the Bank has implemented many HR systems that helped in speeding many HR processes which includes payroll, recruitment, adhoc payments of employees, and employees self-service. It also successfully implemented WPS (Wages Protection System) which was required by Central Bank of Oman and linked with MoM (Ministry of Manpower).

The bank continuously looking into designing and implementing a revised, sustainable process that ensuring that compensation structures for its employees in the Bank are appropriately aligned with regulatory requirements, and drive sustainable performance at all levels of the Bank.

Information Technology

The Information Technology (IT) Department has taken significant strides towards its objective of delivering se-

cure, cost-effective and contemporary technology services to customers. The IT team developed a roadmap to transform and build digital platforms with seamless online banking with digital value propositions & technological 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 experience, self-service, convenience, efficiency, and strong data security that radically simplify our business while dramatically improving our customers experience on technological innovation, Information Technology will continue to be at the core of services deliverables.

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. Yet another innovative and advanced digital payments channels with implementation of E-Wallet application & Mp-Clear system, by adopting the highly efficient and world-class solution, our customers will enjoy instant payment services, greater efficiency when shopping online and the highest levels of security. By using this technology even non-customers will have the opportunity to experience the comprehensive end-to-end payment services.

From our achievements this year we will work towards digitalization & innovation of 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 2018 is encouraging; particularly the improving oil prices as a result of OPEC's decision to maintain agreement of oil production cut will help supporting prices at stable level. The decision has provided support to the oil price and it is expected that oil will be at an average price of USD 55 - 57 per barrel in 2018, higher on average than they were last year. As the Omani government is diversifying the economy and following the Tanfeeth program, investment in major transport, manufacturing, hospitality, tourism and infrastructure should underpin economic growth in the coming years. In addition to this, the government's plan to attract further private investments by improving investment climate and enacting new Public Private Partnership (PPP), foreign capital investment and bankruptcy laws will help

in the implementation of new initiatives and projects. PPP projects like Khazzan natural gas project and Duqm Refinery are progressing well and it is expected that projects selected within the Tanfeeth framework will be financed in partnership with private sector. This will boost the credit growth and will create more employment opportunities and have a multiplier effect.

While 2018 is likely to remain challenging in terms of competitiveness, increased investment and higher optimism on the back of improving oil prices should continue to support domestic demand. We expect GDP growth to accelerate to 3% in 2018 with expected credit growth to be in the range of 8% - 10%. 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.

For the Banking sector, the operating environment is likely to remain challenging in 2018. Credit growth is expected to moderate further, while the pressure on profit margin is likely to persist as funding competition remains keen. Under such circumstances, the focus on our High 5 priorities, which are: 1) Financial Performance; 2) Technological Advancement; 3) Market share; 4) Team and Culture; and 5) Progressive Organisation is likely to be intense in 2018 as we aspire to establish a sustainable and efficient operating model for the Islamic Banking industry.

To increase the Bank's returns over the medium term, we need to grow income in a strong, safe and sustainable manner, while maintaining both cost and capital discipline. We will take further steps to realize our potential. In doing so, we will maintain a strict focus on customer satisfaction, risk and profitability. To diversify our business and strengthen our footprint, we will continue our growth strategy. We will grow further, attracting profitable business from both new and existing customers. Although we can't control the external environment, we know we can control our internal framework and we believe Bank Nizwa is well positioned. We have a consistent strategy based on customer focus, we are evolving our capabilities in anticipation of changes in customer preferences, competition and the external environment, and we are creating new growth opportunities through technology and innovation. 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. 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 Transaction Banking activities.

With a solid business and the right strategy built around balance sheet management, productivity, cost and capital efficiency to steer the Bank in the right direction, we will continue enhancing capabilities and synergies across our business throughout 2018.

It is encouraging to see the improvement in profitability and the increased balance sheet momentum but there is still a long way to go before returns are at acceptable levels as the Bank just completed 5 years of operations. Transitioning to a higher quality income and more sustainable business takes time but we are evidentially heading in the right direction.

We are investing to enhance controls and improve productivity to make us safer and simpler to do business with. Operational efficiencies are funding the investments in systems and processes that will enable us to engage more confidently and effectively with our clients, through maintaining and developing ever-closer relationships with our clients, further reducing our costs of funds and realizing the benefits of our continuing technology investments.

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 to doing the right things and making our 2018 journey an impactful one.

In closing, I would like to acknowledge that we would not have achieved our milestones in 2017 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