

Management Discussion & Analysis Report

(For the financial period ended 31st December 2018)

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 2018 to December 31st 2018.

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 significant growth over the last six years. With two full-fledged Islamic banks and six Islamic windows, Shari'a compliant banking assets accounted for 13% of Oman's total banking assets in 2018 and the growth pace is expected to continue in 2019. The financing assets of Islamic Banks have grown to OMR 3.5 Billion, an increase of 18% since December 2017 and deposit has grown to OMR 3.2 Billion, an increase of 10% since December 2017. 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 exceptional 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. The Bank moved swiftly and significantly ahead in its annual financial plan in 2018. We have successfully delivered against many of the milestones that we set for ourselves in this ambitious agenda. We posted strong results in 2018 with a net profit up 98 per cent year on year. Revenue improved 21% year-on-year due to financing growth. The operating performance was also supported by higher non-funded income, lower expenses and a lower cost of risk. Our balance sheet continues to strengthen with further improvements in capital and liquidity and stable credit quality.

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.

COUNTRY ECONOMIC & BUSINESS ENVIRONMENT

Global economic activity remained largely subdued in 2018. However, economic growth in Oman paced up in 2018, as oil prices improved compared to average in 2017. Higher cost of borrowing 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.

2018 has been a challenging year for our region. OPEC's production cuts have weighed on real GDP growth and while oil prices have recovered this year, they remain well below levels seen prior to 2014, keeping up pressure on regional governments to restructure budgets and diversify revenues. The slower growth rate was entirely due to cuts to oil production, in line with OPEC's overall strategy to limit output and reduce excess supply in the global crude market – a strategy that supported the recovery in oil prices last year.

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 8% 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 2.6 per cent in 2019 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 volatile oil prices and expanding budget deficit, the banking sector continued its trajectory of growth. Total Credit of the Banking sector crossed OMR 25 Billion by the end of Dec 2018 thus registering a growth of OMR 2.2 Billion or 8.8 percent during the year. On the other hand, total deposits held with banks increased by 4.5 percent. The credit-to-deposit ratio soared to 112 per cent at the end of December 2018 from 109 per cent a year earlier.

An improvement in oil prices led Oman to rebound from the contractionary phase. The economy grew, recovering from an acute contraction during the previous three years, with contribution coming from both hydrocarbon and non-hydrocarbon sectors. However, the economy is already bounced back in 2018 and is projected to accelerate further in 2019.

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 Non-Performing Assets ratio suggests satisfactory asset quality and a well contained credit exposure. Improving economic growth will create credit demand, thereby expecting the credit growth to 8%-10% in 2019.

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.

As the economy continued to face challenges in 2018, our retail banking division consolidated our base and focused on a number of initiatives to enhance the customer experience and strengthen our position as the leading Islamic Bank in the Sultanate. During the year we introduced Diminishing Musharaka as an additional option under Property Finance. In addition, various features were added to existing products in order to increase customer acquisition. A number of agreements were signed with reputed developers, dealers and vendors in order to provide our customers with additional discounts and value added services. To diversify our product offering we also introduced Takaful products.

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. We plan to enhance the product offerings, in line with the customer needs of this segment.

Our Cards provide a range of offers and discounts available at various merchants locally and regionally. In 2018 we entered into various agreements which enabled our Credit card customers to access over 1000 airport lounges across the globe. In addition, a partnership with Oman Air allows our Wealth Management customers to be enrolled to the Sindbad Silver program which provides a host of airport & travel related benefits.

Moving towards financial inclusion and a digital economy, we continued to improve our digital channels. In order to provide 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.

Continuing with the philosophy of bringing the bank closer to its customers, we launched our 13th Branch at Al Khuwair, Muscat. Strategically located, this branch caters to the residents and businesses of the area. The branch will also cater to number of government offices located nearby. In addition, without compromising service quality and customer experience, the Retail bank undertook numerous initiatives to optimize revenue and reduce costs wherever possible.

In 2018, Retail Banking further consolidated its position as the leading Islamic Bank in Oman by increasing its customer base by almost 15%, 43% increase in Retail deposits and 14% growth in Retail assets. Our 13 branches (located at geographically-strategic locations across Oman) continue to provide excellent service and the best possible financial solutions by analyzing customer needs.

In 2019, the Bank aims to further expand its network and customer-base through value-added services and by offering a rewarding and enriching experience. We will also continue to innovate and introduce new products and services to our customers.

Wholesale Banking

The Wholesale Banking business has a growing portfolio of clientele in all categories as well as an increasing range of Sharia compliant products for all types of businesses. In 2018, the Wholesale Banking unit's organizational structure was revised in order to align with the changing business environment. At the center of the wholesale banking unit's strategy is customer service. The wholesale banking team utilized client networking opportunities to gain a better understanding of customer needs as well as raise awareness on the progress of Islamic Banking in the country to various business segments. Bank Nizwa's Wholesale Banking unit now stands ready to embark on the Bank's next stage of growth.

Corporate Banking

Corporate Banking continues to acquire new clients and build existing relationships with Sharia compliant offerings and innovative solutions. Despite a challenging and subdued market environment, the business has maintained excellent asset quality through active client management and achieved better fee income as well as net margins for the Bank. The unit's consistent efforts have resulted in successful closure of significant business deals that would provide a stable asset base to the Bank in the next several years. Coverage in the major cities of Muscat, Salalah, Sohar and Duqm remains central with tier two cities going forward. The unit works in close association with the Bank's Sharia Compliance unit, to continue offering innovative Sharia compliant products and services to large corporate

Project Finance

The focus for project finance has been the successful execution and completion of the existing projects financed by the Bank and the acquisition of new projects or contracts. The team has been successful in acquiring a number of 'green' projects including environment improvement in Muscat, Dakhliya and Dhofar regions. The country's ambition to enhance the manufacturing sector was supported through Sharia compliant financing of key significant deals, despite stiff competition. Besides core financing, an advisory role has also been taken up in sourcing mergers and acquisitions that would yield fee based income to the Bank. Going forward, the unit will endeavor to acquire some sizable business from the upcoming upstream projects.

SME and Commercial Banking

SMEs are playing an increasingly important role in the growth of the economy and in supporting the country's diversification strategy. The bank recognizes this importance and has continued to increase the number of SME customers and business volume by expanding and strengthening a group of dedicated Relationship Managers to serve Small & Medium Enterprises of various needs through a suite of Sharia-compliant banking products and facilities. Additionally, the unit's Commercial Banking expertise has the capability to serve mid-size enterprises beyond SMEs. At the first phase roll-out of SME business coverage, we sourced business from key interior cities other than Muscat.

Trade Finance

The Bank provides Sharia-compliant Trade Finance solutions to meet the needs of a wide range of customers locally and internationally. As a result of distinguished marketing efforts, Trade Finance expanded the range of customers from small enterprises focused primarily on domestic markets to large 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, Trade Finance business achieved sustained growth in the portfolio of trade business, while the growth in the operational income from trade finance increased. On the other hand, LC Murabaha financing value have grown well while the related profit grown steadily during the same period. The unit will continue working towards its vision of being the best provider of trade services in local markets, by delivering professional services to help customers succeed in their trade and to support communities to thrive.

Global Markets

Global Markets unit, apart from Treasury functions, is on course to further enhance its Sukuk Portfolio and Foreign Exchange operations. During the year, Foreign Exchange operations achieved satisfactory growth while the Sukuk portfolio, despite the challenging market environment, continued to make steady contribution to the Bank's income stream. Global Markets shall continue to expand its offering through the Bank's growing channels, providing market knowledge expertise and experience in the Islamic Banking space.

Government & Investment Banking

The Government & Investment Banking unit is one of the main drivers of wholesale deposit base in supporting the Bank's asset growth, apart from investment mandates. The unit adds strength and diversity to the Wholesale Banking business to deliver core funding sources and other revenue streams. Clientele base continues to broaden with the dedicated coverage producing better throughput, instrumental in supporting the Bank's asset growth and income. Additionally, investments maintained afforded income complement. The unit shall continue and focus on efficiency initiatives in tandem with the growing 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 correspondent relations and business flows. In 2018, Bank Nizwa continued building strong connections with local and International Banks around the world. The aim is to provide access to our clients - corporate and institutions - to the international network for trade and payments, and also the state-of-the-art products by the top regional or global banks. New credit lines for handling local and international payments, placements, L/C's and L/G's were set up. The unit shall continue to develop and maintain long-term relationships for the Bank as well as continue on ensuring the efficiency in transactions processes of our correspondent banks and customers.

Wholesale Banking Support

The Wholesale Banking Support unit is a key anchor division backing the business units. The unit was instrumental in the efficiency of Wholesale Banking covering multiple client services and performances. Its function has augmented the overall commendable growth of the Wholesale Banking business. The unit shall continue improving its efficiency foundation to meet the Bank's advancement aspirations, besides contributing immensely to high satisfaction level of service to our clients.

Risk Management

Risk Management is an integral part of our operations and is the responsibility of all units within the bank. The Risk Management function is overseen and managed on a bank-wide basis. The Bank's approach to risk management involves understanding drivers of risks, risk types, and impacts of risks. Drivers of risk include, but are not limited to, the economic environment, regulations, competitor or market evolution, business decisions, process or judgment error, dysfunctional markets, and natural disasters.

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 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 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. 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 has successfully implemented International Financial Reporting Standard (IFRS) 9 for impairment and business model classification for financial assets. The bank is continuously improving internal standards of financial and non-financial parameters 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. In addition, this has aided in controlling quality of assets. 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 monitors portfolios and implements 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 the objectives of a well-controlled balance sheet are met. The Bank made progress in building balance sheet growth in assets and 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 the lowest in the industry and well within the risk appetite; they 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 organization. During the period in review, the Bank conducted a 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 conducted Business Continuity testing of all the critical functions 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 Shari’a-compliant financial tools under Islamic banking, insurance and investment across multiple governorates.

As the Sultanate’s ‘go-to reference’ for Shari’a-compliant financial solutions, 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 students 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.

Driving 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. In addition, the bank has been focusing on its corporate clients, offering a wide range of innovative Shari’a-compliant wholesale banking products including treasury,

investment, international banking, and trade finance services, helping it become the business partner of choice for enterprises of all sizes across the Sultanate.

The year 2018 was a year characterized by milestones and achievements. Bank Nizwa celebrated its 5th anniversary after registering the highest growth rate in Oman's banking industry during the first half of 2017. It was also successful in reaching its goal of expanding its network reaching 13 branches in Oman. This roster of milestones was achieved as a result of the bank's unwavering commitment to partner with its customers in their progress - fulfilling and enriching their financial journeys. This customer-first approach has helped the bank in building a formidable banking franchise that has grown from strength to strength over these past five years.

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 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 organizations, municipalities and ministries across the different regions in the Sultanate.

Awards & Accolades

Bank Nizwa continued to invest in Omani experts of the Islamic finance sector after two of the bank's senior managers successfully completed participation at the prestigious 4th edition of the Cambridge Islamic Finance Leadership Programme. Building on its habit of receiving esteemed awards over the years, in 2018 alone, the bank's long list of accolades included being named the 'Strongest Islamic Retail Bank' in the Sultanate at the Islamic Retail Banking Awards (IRBA) for the 4th year in a row. Other awards included 'Best Employee Retention and Motivation' award at the 2016 INSIGHTS Middle East Call Centre Awards, as well as being named 'Fastest Growing Bank in Oman' at the Banker Middle East Industry Awards of 2018.

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 witnessed higher achievements and stronger performance in 2018.

In addition, and as part of the HR strategy, the Bank maintaining performance management to build the culture pay for performance and have proper "Succession Planning" program by providing the selected group of high-potential employees with the required functional and technical skills. The bank is looking at this a critical part of integrated approach of managing and developing its employees.

People Attraction & Recruitment

The bank ended the year with 353 employees in 2018 and contributed towards the Government Employment Initiative by employing 22 unemployed and fresh graduates. Bank Nizwa continued to identify and recruit 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 2018 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 80% of the Bank's employees attended more than 105 programs with a total of 800 training opportunities provided that focus on Islamic Banking Training, Risk Management, Wealth Management, Corporate and Retail Banking. The Bank has also participated in the 4th Cambridge Islamic Finance Leadership Programme provided by Cambridge International Advisory-London. These cutting-edge training programs reflect the latest developments in banking technology; they also support in 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 of 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 an HR professional Service Company to compare its pay position to the market, and to make appropriate decisions based on the results of the survey in order to position Bank pay appropriately.

Moreover, the Bank continuously enhances its' HR systems to help in speeding many HR processes which include payroll, recruitment, training, adhoc payments of employees, and employee self-service.

The bank continuously strives to create sustainable processes to ensure that compensation structures for employees are appropriately aligned with regulatory requirements, and drive sustainable performance at all levels of the Bank.

Information Technology

Information Technology acts as an enabler for core businesses with an aim to achieve the strategic objective of being the top-tier and only Islamic bank for our customers, shareholders and employees. Our journey continues with a strong focus to deliver lower operational cost, build digital capabilities, increase efficiency and automation and customer centric processes to deliver an enhanced customer experience.

The Bank further improved its offering of digital channels by adding Business-2-Business (B2B), Mobile Wallet, and a Remittance service which was enhanced to operate in real time. The efficiency of salary processing was improved by implementing the Salary Management System from CBO. Deployment of high end information security infrastructure and tools ensure the bank's cyber security defense has a highly sophisticated and multilayer capability and provides a high degree of external and internal protection.

Going Forward

The outlook for 2019 is encouraging; particularly improving oil prices as a result of OPEC+ 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 63 per barrel in 2019, in the range of that they were last year average. The Sultanate's economy is projected to achieve a positive growth of 2.6% at constant prices. The International Monetary Fund expects Oman to have the highest growth rate among all GCC countries in 2019.

Oman is on track towards maintaining sustainable growth, following the new reforms and governmental initiatives to diversify sources of revenue while increasing spending in key sectors. In the face of the unprecedented global challenges, the country has remained steady and resilient in creating new opportunities for growth in a wide variety of sectors including

infrastructure, healthcare, hospitality, tourism, mining, ports and shipping, logistics and transportation.

Measures introduced by the Government to boost non-oil revenues, supported by an increased efficiency in controls implemented on public expenditure, have notably reduced the budget deficit in recent years. In order to promote economic growth and diversification, the government has considered its investment expenditure as a critical spend, with the purpose of enhancing the investment climate and resultantly enabling private sector to play greater role in investment projects, thereby creating additional job opportunities in the country. The investment spending specifically allocated for infrastructure projects which are overseen by various government units. Allocations have also been earmarked for utilization by State-Owned-Enterprises for the implementation of projects in industrial and services sectors. Such measures will help to boost economic growth and create more jobs. Additionally, the government continues to implement the initiatives recommended by National Program for Enhancing Economic Diversification (Tanfeedh).

Notwithstanding the above, projects and initiatives recommended by Tanfeedh rely to a large extent on the private sector in providing finance and investments required to execute these initiatives. Besides financing certain essential projects, the Government is also taking steps to focus on facilitating procedures designed to improve the business environment and providing support to the respective sectors.

The country's economy and its ability to attract investors and entrepreneurs continues to spur us on the path of success as we progress the bank and the Islamic finance sector to even greater heights in the coming years. We remain confident that the bank will benefit from new reforms and increased government spending, besides development of key sectors.

For the Banking sector, the operating environment is likely to remain challenging in 2019. 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 Organization is likely to be intense in 2019 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.

We will also continue to exercise strict cost-discipline and look for opportunities to tighten our productivity levers across the Bank. To keep ahead and remain relevant to our customers, we will intensify growth digitally by accelerating our customers' migration to our digital platforms, enhancing our distribution channels, improve our cost and capital efficiency to steer the Bank in the right direction and improving our capabilities to offer our customers what they need when they need it and to pursue new revenue streams.

We are investing to create and deliver value for our stakeholders who include investors, customers, employees and the communities we serve as we embarked on the journey to bring Islamic Finance "Closer-to-You", the concept that is as per our mission representing our purpose for existence. Our desire is to meet the ever evolving customer needs by continuously transforming ourselves through digital innovation to better serve our customers in a fast, simple and efficient manner. This concept is meant to demonstrate the clear links between an organization's ability to create value over time through its strategy, technological platform, distribution channels and products to undertake, as it gets all of us within the organization to think about the value creation that we are helping to build for our community.

In closing, I would like to acknowledge that we would not have achieved our milestones in 2018 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