

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD
ENDED 30th June 2016**

Dear Shareholders,

Assalam Alykum Wa Rahmat Allah Wa Barakateh,

Alhamdulillah, by the grace of Allah we have completed another progressive quarter in our efforts to grow Sharia' compliant banking in the Sultanate.

On behalf of the Board of Directors of Bank Nizwa SAOG, I am pleased to present to you the results for the second quarter ended 30th June 2016. These are based on the unaudited condensed interim financial information which has been reviewed by our external auditors.

ISLAMIC BANKING MARKET IN OMAN

The Islamic finance sector has shown a significant progress during the period. Growth of Islamic banking is far outstripping that of the conventional banking segment with Islamic banking assets up more than 62% year-on-year at the end of March 2016, according to a report issued by the Central Bank of Oman (CBO) in mid-May 2016. The pace of expansion and growth in Islamic banking indicates growing demand for sharia-compliant products in the marketplace. We believe that Islamic Banking has enormous potential and opportunities to grow.

The global economy experienced increased volatility since the end of 2014 as we witnessed a sustained weakness in oil prices, combined with a slowdown in global markets. The Oman economy, whilst overall resilient to economic headwinds due to government diversification strategy and regulatory reform, slowed in 2016 leading to tightening liquidity conditions in our domestic operating environment. However, key indicators of the banking sector are at comfort level with a decent growth in total assets. Banks in the system continued to maintain capitalization levels well above the regulatory requirements which show soundness of the banking sector.

Bank Nizwa will continue to embrace resilient business model, ensuring to deliver a stable financial performance. The Bank is already geared towards executing its strategic vision 2020 and accelerating its revenue diversification program. Despite the competitive environment in the market, we will continue to observe conservative risk management practices and remain vigilant to any unexpected changes in the market environment.

FINANCIAL PERFORMANCE

During the six months of 2016, Bank Nizwa's revenue increased by 57% compared to same period in 2015 while total assets grew by 22% compared to December 2015. The bank's total assets as end of 30th June 2016 reached Omani Riyals 421 million. During the period, the growth in our gross financing portfolio reached Omani Riyals 77 million with more than 13,000 financing accounts. Both the Bank's Retail and Wholesale business functions delivered a strong performance during the period which helped boost operating revenue to 7.9 million Omani Rials.

During the period, operating expenses grew only by 1% compared to the same period of. As a result, cost to income ratio has been closely monitored to reduce this ratio by increasing bank's revenues.

The growth in our Customers' deposit portfolio as end of 30th June 2016 reached Omani Riyals 252 million, is a positive indicator for the bank's market share as more customers are now enjoying Sharia Compliant competitive profits and our personalised banking services. The bank is now serving more than 61,500 retail and corporate deposit accounts.

In addition, the bank has strong capital adequacy ratio and sufficient liquid assets.

THE YEAR AHEAD

We remain concerned about the current levels of economic activity and growth in the region and the major markets around the world. Oil prices are expected to recover from current lows during the course of the year in 2016. Against this backdrop of relatively low oil prices, government has already taken a more prudent fiscal stance with cuts to subsidies on fuel and increase fees and charges on some government services in the beginning of the year which will reduce the budgetary pressure. However, investment in key infrastructure projects in the Country is expected to continue over the medium term which will create growth opportunities for banking sector. We expect growth in the overall economic activity in 2016 as government has already initiated increased production of oil.

Looking ahead, we are confident to grow our balance sheet in a controlled manner through diversification of revenue sources and expansion of our product and client base. During the year, we will focus on driving asset growth and cross-sell in the growing retail business and developing segmental offerings for SME and Wealth Management in our business. In the wholesale banking segment, we will continue to strengthen our efforts to diversify the Islamic financing portfolio to include a broader representation of multiple sectors and segments, and increase revenue from banking services by making improvements in our Trade Finance and Treasury services.

We are confident that our solid fundamentals to undertake a considered and discipline approach to cost and risk management are positioning the Bank to continue our success story.

ACKNOWLEDGEMENTS

We, the founders of Bank Nizwa, the Board of Directors and the Executive Management, extend our sincere thanks and gratitude to His Majesty for granting honourable approval for the establishment of Islamic banks, which allows the Bank to participate in the economic system as a result of His Majesty's visionary leadership. We also acknowledge the efforts of the Central Bank of Oman and the Capital Markets Authority for their continued support towards the success of Islamic banking.

Finally, On behalf of the Board of Directors' and Management of Bank Nizwa, I conclude this report by thanking the Shareholders, our customers and the community that continue to support us in the challenge of making successful the first Islamic Bank and thank them for their continued patronage and trust in Bank Nizwa.



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