

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

Dear Shareholders,

Assalamu'alaikum Wa Rahmat Allah Wa Barakatuh,

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

On behalf of the Board of Directors of Bank Nizwa SAOG, I am pleased to present to you the results for the Second quarter ended 30th June 2017. These are based on the unaudited condensed interim financial information which has been reviewed by our external auditors.

First six months of the year was encouraging for the Islamic banks as the Islamic finance sector has shown a significant progress during the first half of the year. The growth in Islamic finance sector has outperformed the market and we believe that it has enormous potential and opportunities to grow despite the challenges banking sector is facing. Being the first Islamic Bank of the Country, it becomes our responsibility to continue working for creating awareness about the industry and its procedures and make Islamic banking more accessible for population at large by investing in technology, distribution and communication.

The bank delivered a good set of results in the second quarter of 2017, in spite of challenging operating conditions. The Bank recorded 45% growth in assets 36% growth in revenue from last year, driven by healthy activity across our various businesses and notable improvements in efficiency and asset quality. During the period the Bank achieved a key milestone by receiving first time rating of investment grade, two notches below the sovereign rating, by Moody's which is a result of Bank's solid capital base, higher than the industry average and excellent asset quality with lowest non-performing asset ratio in the industry, improved profitability, and growing market share.

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

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

FINANCIAL PERFORMANCE

The bank's total assets as end of June 2017 reached 613 Million Omani Riyals. During the 1st half of 2017, our gross financing portfolio grew to reach 485 Million Omani Riyals while total customer deposit portfolio reached 442 Million Omani Riyals. This growth in financing portfolio in both businesses retail and corporate has provided the momentum needed to continue our growth trajectory. This momentum will enable us to achieve our long term objectives.

Total revenue grew by 36% over the same period in 2016 while operating expenses increased only by 6%. This has led to achieve net profit after tax of 1.3 Million Omani Riyals. This is considered an important milestone towards meeting Bank's strategic plans of improving the performance and write-off the accumulated losses. Despite the more challenging year for liquidity, the Bank's balance sheet remains strong due to excellent asset quality and robust capital ratios.

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FUTURE OUTLOOK

Amidst the global economic slowdown and lower oil price scenario, the Oman's economy growth is expected to recover and it is projected that banking sector credit will grow by 8% to 10% in 2017. There have been number of positive recent fiscal and government initiative providing support to the economy, such as Tanfeekh program and other government initiated infrastructure and development programs. Although the government has reduced its involvement, however the development process will continue this year. There is more impetus on the private sector to take forward the development process which will continue to increase demand for credit. Numerous sectors in Oman economy have a positive economic outlook, including airlines, tourism, logistics, health care, trade and transportation.

We expect compliance with the OPEC production cut deal to wane as we move into 2018 as there are few signs it has been successful in rebalancing markets, or that it will have more of an effect in the second half of 2017. A resumption of production growth by major oil producers will be another hurdle for oil prices and this will dilute possibilities for significant recovery in oil price in the remainder of 2017 and in 2018. The downward revision of oil price forecast will widen the external and budget deficit forecasts for next year. Against this backdrop of current relatively low oil prices, the government has taken a more prudent fiscal stance to bridge the budget deficit with foreign borrowing in the beginning. However, investment in key infrastructure projects in the country is expected to continue over the medium term.

The Oman's economic environment and specifically banking sector in 2017 will continue to capitalize on its key competitive advantages to show further resilience in a volatile global economic backdrop. In addition, local authorities are working on enhancing the Oman's model by implementing various regulations to safeguard the country's economy and maintain its growth, through the implementation of number of new initiatives, in line with government vision in regards to gradual fiscal consolidation. Taking advantage of the expansion of economic activity and government's initiative of diversification, the Bank's strategy is well set to keep Bank Nizwa on the growth path.

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

ACKNOWLEDGEMENT

On behalf of the Founders, Board of Directors, Executive Management and staff, I would like to express our sincere gratitude to His Majesty Sultan Qaboos bin Said, for his foresight and visionary leadership that continues to advance the nation and the banking sector in particular. Special thanks are also extended to the Central Bank of Oman and the Capital Market Authority for their invaluable guidance and support that has ensured the success of Islamic banking in the Sultanate.

I would also like to thank all our shareholders and customers for their loyalty and trust as we continue to retain our position as the largest full-fledged Islamic bank in the Country.



Amjad Bin Mohammed Al Busaidi
Chairman