

Management Discussion & Analysis Report

(For the financial period ended 31st December 2019)

The Management Discussion and Analysis Report is a detailed overview of Bank Nizwa's business for the financial year which covers the period from January 1, 2019 to December 31, 2019.

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 seven years. With two full-fledged Islamic banks and six Islamic windows, Shari'a compliant banking assets accounted for 14% of Oman's total banking assets in 2019 and the growth pace is expected to continue in 2020. The financing assets of Islamic Banks have grown to OMR 4 Billion, an increase of 11% and deposit has grown to OMR 3.6 Billion, an increase of 10% during the year 2019. 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.

Implementing Strategy 2020, the key objective for 2019 was to reach a new level of competitiveness, which will make it possible to compete with conventional banks while remaining the best bank both for the people of Oman and business. Bank Nizwa's financial performance this year demonstrated exceptional growth throughout its operation, reinforcing its leadership position within the sector. The Bank earned prestigious awards and recognition from domestic and regional markets. Financing portfolio, deposits, assets and operating income all reported substantial growth and as a result the Bank achieved a historical milestone by recording highest ever net profit. We have successfully delivered against many of the milestones that we set for ourselves in this ambitious agenda. We posted strong results in 2019 with a net profit up 22 percent year on year. Revenue improved 22 percent 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 liquidity, robust capital ratios, 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 significantly increased the scale of our operations and grew our client base. Thousands of retail, corporate, small and medium business segment chose our bank as their financial partner. 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 2019. However, economic growth in Oman paced up in 2019, as oil prices were stable and government reforms initiative started yielding results. While oil prices did recover from the lows, however, the average oil price remained low compared to the required rate for fiscal breakeven.

2019 has been a challenging year for our region. Economic momentum is constrained because of OPEC's production cuts which have held back oil production and by muted non-hydrocarbon activity due to public spending restraint since oil price fell in 2014. The slower growth rate due to cuts on oil product kept pressure on regional governments to restructure budgets and diversify revenues.

The government has been running a budget deficit and this deficit is expected to continue for some time in the future. However, with a support of the Government's actions to rationalize public expenditures, the fiscal balance improved. 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.

Oman's current economic situation remains relatively stable. The 2020 budget and government plans for economic diversification will support the government to withstand economic challenges.

OUTLOOK FOR THE BANKING SECTOR

The banking sector in Oman has been showing remarkable resilience to the tightening of operating conditions since the severe oil price shock. Banks maintained sufficient capital buffers, remained fairly liquid, and posted decent profits. The credit growth slackened in sync with the economic growth, while the credit risk is well-contained.

Banks will continue to be the prime financiers for both corporate and household sectors. Within the banking sector, domestic banks will remain the leading players. The major source of funding will be domestic deposits which are not growing at the same pace as financing is growing indicating the pressure on liquidity will remain in 2020.

Despite volatile oil prices and expanding budget deficit, the banking sector continued its trajectory of growth. Total assets of the Banking sector crossed OMR 35.6 Billion by the end of Dec 2019 thus registering a growth of OMR 1.3 Billion or 3.7 percent during the year. On the other hand, total deposits held with banks increased by 1.7 percent to reach at OMR 23.6 Billion. The credit-to-deposit ratio stands at 109 per cent at the end of December 2019 from 108 per cent 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 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 7%-8% in 2020.

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 2019, 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 various products & features including Diminishing Musharaka for under construction financing; Salary Advance which allows our eligible customers to get cash within minutes, in cases of urgencies. This facility is available 365 days.

In addition, various features were added to existing products in order to increase customer acquisition and enhance customer experience. We are the First Bank giving facility to our home finance customers to take 2 months of installment deferral (at any time of the year). Also we introduced Diminishing Musharaka to take over Personal Loans from conventional banks. This will allow more customer to shift to Islamic Banking.

In addition to products we have signed a number of agreements with reputed developers, dealers and vendors in order to provide our customers with additional discounts and value added 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. 2019 also saw the launch of Youth segment which has been well accepted by the young population. Using innovation for our customer's benefit, we introduced contactless Cards for our customers.

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 14th Branch at Ibri. Centrally located, this branch caters to the residents and businesses of the area and now customers do not have to travel to Nizwa or Buraimi to visit a Bank Nizwa Branch. We have also installed our offsite ATM to provide additional convenience. In addition, without compromising service quality and customer experience, the Retail bank undertook numerous initiatives to optimize revenue and reduce costs wherever possible.

Realizing our responsibility towards the society, we have been conducting regular knowledge sessions where-in we educate the attendees about Islamic Banking products and address their apprehensions and misconceptions (if any) about Sharia Compliance banking services and products. We are sure such engagements will spread knowledge and allow a person to make more informed decisions.

During 2019, Retail Banking further consolidated its position as the leading Islamic Bank in Oman by increasing its customer base by almost 15%, 17% increase in Retail deposits and 12% growth in Retail assets. Our 14 branches (located at geographically-strategic locations across Oman) continue to provide excellent service and the best possible financial solutions by analyzing customer needs.

In 2020, 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

Wholesale Banking made commendable strides by continuing to broaden the Sharia compliant products and services to its growing portfolio of clientele and markets. The Wholesale Banking Group contributed immensely in terms financing asset and revenue growth for the Bank during the financial year including closing several notable large deals with key corporate clients. Focus on efficiency while maintaining customer centric approach is central to the progress of the Wholesale Banking business. The Wholesale Banking team worked to deliver awareness and confidence in Islamic Banking to various business

segments through constant interactions, networking opportunities and participating events. The close associations with different divisions within the Bank including Retail Banking and Sharia Compliance unit were considered equally important. The Wholesale Banking Group endeavors to continue redefining the way we do business by enhancing capabilities and focus to meet diverse business needs towards the aspiration of national Vision 2040.

SME and Commercial Banking

The importance of the Small & Medium Enterprises cannot be further emphasized as the country embarks on economic diversification towards advancing the nation. The Bank strengthened its SME business unit by adding dedicated Relationship Managers to serve various needs of more SMEs in different areas and segments. The SME business continues to expand coverage in key interior cities other than Muscat. Additionally, the Bank worked with larger corporate enterprise vendors as supply chain solution towards supporting SMEs. A dedicated SME brochure was made to highlight Sharia compliant products and services available to SMEs. Despite numerous challenges, the SME and Commercial Banking unit added new business and products to register satisfactory growth. The Bank shall continue growing the SME business by increasing focus, utilizing various available channels and provide further support with Sharia compliant products and services to SME businesses' expansion throughout the enterprise life cycle.

Corporate Banking

The Corporate Banking unit registered record growth as client portfolio as well fee-based income grows and increased confidence in the range of Sharia-compliant products and services available for various types of business requirements. In addition, asset quality was aptly maintained above industry average through the team's active client engagement and management. Although competition was fierce from long-standing incumbent commercial banks coupled with subdued economic environment, new clientele, including in national priority economic sectors such as manufacturing, logistics, tourism and mining, were added and confidence from existing clients was applicably maintained. The team continues to work closely with Sharia Compliance unit to find solutions for innovative value-added products and services to meet the various evolving requirements of corporate enterprises. The Corporate Banking unit shall continue strengthening client relationship at multiple levels and add focus to underserved corporate business segments.

Project Finance

The Project Finance unit continues to deliver coverage and financing needs to the national priority economic sectors that provides for the Bank's asset growth and income stream expectations. The increasing attention for private sector playing a larger role in strategic national infrastructure projects with the establishment of supportive new regulations including Public-Private Partnership Law, Bankruptcy Law and Foreign Capital Investment Law, and the setup of dedicated Government's Public-Private Partnership unit have provided for the rising need of project financing. PPP projects in the pipeline are expected to be key catalyst to growth. The Project Finance unit stands ready to meet this emerging needs by continuing with successful execution and completion of projects financed by the Bank as well as delivering Sharia compliant project-related services and financing to developing projects and contracts.

Government & Investment Banking

The Government & Investment Banking unit is essential in driving the wholesale deposit base supporting asset growth, apart from investment and advisory mandates. Increasing cost was a mounting challenge to the industry and efforts by the Government unit team had maintained the requisite sustenance while adding new clientele source. The Investment Banking unit made significant inroads in the capital market sector by providing significant contribution to the issue management and collection efforts to the maiden Omani Rial Sovereign Sukuk Programme and its inaugural issuances. The team worked closely with the Sharia Structuring unit to lead in ensuring the Sharia compliance of the transaction's Sukuk structure and prospectus. The transaction recently won the IFN's 2019 Best Deal by Country (Oman) and Best Deal by Sector (Ijarah) and was shortlisted for the Best Deal of the Year 2019. The Government & Investment Banking unit shall continue to broaden base for the Bank with dedicated coverage to deliver core funding sources as well as augment other income streams including Sukuk advisory.

Global Markets (Treasury)

Global Markets business, apart from core Treasury functions, provides income supplement to the Bank through Foreign Exchange operations and Sukuk Portfolio management. Global Markets facilitates FX cover spot and FX Wa'ad to clients dealing in import and export trade. Additionally, remittance support is efficiently handled for clients in both Retail and Corporate segments. Foreign Exchange achieved satisfactory growth and improved coverage through the Bank's branch channels. Foreign Exchange business is expected to be enhanced

in tandem with growing clientele and expansion in multitude of distribution channels. Sukuk Portfolio management delivered within expectation despite market challenges and shall continue to make steady income contribution to the Bank onwards. Global Markets strives to expand its Sharia compliant services and product offerings backed by the team's market knowledge expertise and experience in a variety of Islamic Banking markets.

International Banking (Financial Institutions)

International Banking unit continues to build and maintain relationships with partner financial institutions domestically and globally. This effort is fundamental to provide our clients with the requisite network for trade and payments as well as state-of-the-art products by top regional or global banks. Supplemental funding sources were also able to be afforded through the financial institution partnership. The team ensures smooth correspondent relations and business flows. Additionally, overall global country exposures and risk are monitored by the unit. During the year, the Bank continues to add new financial institution partners, connections and new geographical locations. New lines for handling local and international payments, placements, L/Cs and L/Gs were continued to be set up and enhanced. The International Banking unit shall continue in expanding these efforts and increase participations to ensure the Bank's efficiency in the transaction processes for our clients are well covered.

Transaction Banking and Trade Finance

Transaction Banking is steering our efforts to enhance our capability and facilities to meet rising demand for efficient banking and cash management services. Integrated enterprise solution in key areas shall be our focus in order to deliver these services to customers. Meanwhile, our clients' usages of Sharia-compliant Trade Finance products and solutions have recorded commendable increase during the year. This is afforded through the continuous marketing efforts and efficiency of our Trade Finance operations which enhances client's confidence in our delivery and services. Consequently, the sustained growth achieved has contributed to the increase in the non-funded income for the Bank. Transaction Banking unit and Trade Finance unit shall continue with efforts towards delivering requisite professional services to customers in augmenting transactional services requirements as well as local and international trade facilitation. In order to facilitate SME clients' support in import and export trade, a special Treasury & Trade desk was established in the year under Transaction Banking.

Wholesale Banking Support

A key anchor division to the business units, the Wholesale Banking Support was instrumental to the overall commendable performance and growth of the Wholesale Banking business. The team provides fortitude to the efficiency of Wholesale Banking Group covering multitude of client services and performances. The unit shall continue to provide the high satisfaction level of client servicing through continuous improvement of its efficiency foundation.

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 follows 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

As the first Islamic Bank in Oman, Bank Nizwa maintains a long-standing commitment to raising awareness on the concept 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 2019, Bank Nizwa continued 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. In addition, we have played leading role in supporting iconic international and local Islamic events to Oman including Islamic Finance News Forum which is organized by Islamic Finance News, a leading international magazine in the industry of Islamic finance, Sultan Qaboos University first Islamic Forum, 8th Shura Sharia Audit Conference and Salalah International Forum on Islamic Finance to name few.

Moreover, we have continued the "Islamic Finance Knowledge Program" which we have launched in 2017 in collaboration with Oman Takaful and Al Kawthar Fund.

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. 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 and these efforts were recognized in the Global Islamic Finance Award ceremony as we have won the "Investors in Society" Award.

Awards & Accolades

Winning over 26 local, regional and international awards in just 6 years of operation, Bank Nizwa is cementing its well-earned position as the leading Islamic financial institution in Oman. During 2019 the Bank Nizwa was named 'Financial Institute of the Year' during edition of the coveted MEED Awards. It was also on Forbes Middle East's list of the most successful companies in Oman. The bank also scooped two awards two awards at the Global Islamic Finance Awards (GIFA) 2019, one was the GIFA Human Capital Development Award after showcasing strong emphasis on performance management and talent retention, as well as the GIFA Investors in Society Award, a testament to our success in forging strategic partnerships with the community that simultaneously grow our bottom line and enhance community well-being. Moreover, the bank was named as 'Best Islamic Bank in Oman' at the Islamic Finance News Best Banks Poll: Innovation, creation and tradition.

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) Internal Sharia Reviewer:

ISR assumes the responsibilities of Head of Sharia Compliance Department. Functions include supervising Sharia audit and providing Sharia training. The major technical role of internal Sharia reviewer is to execute Sharia review of all financing and investment proposals in coordination with Sharia compliance manager. Consequently, a Sharia Review Report is prepared for each proposal and presented to Sharia Ex-com and Sharia Supervisory Board in the monthly and quarterly meetings. Review of proposals within current approved product programs and Sharia Supervisory Board guidelines are presented to the respective business units as part of the required documents for execution. This function is the pre-execution Sharia review activity.

In addition to these daily functions, the Internal Sharia Reviewer with assistance from the assigned team member acts as the coordinator for the Sharia Supervisory Board and prepares the meeting file and the minutes of meetings. Sharia resolutions and guidelines are

then communicated to the respective business unit heads for adherence. Any approval required from business units before the next meeting of Sharia Supervisory Board is communicated by the Internal Sharia Reviewer to Sharia Supervisory Board members by email for review and providing Sharia resolution. Sharia Supervisory Board has also delegated specific authorities to Sharia Ex-com whereby its members are entitled to issue Sharia resolutions for such cases. Internal Sharia Reviewer also prepares the agenda and the documents, and minutes of meetings for Sharia Ex-com and communicates its Sharia resolutions to relevant business unit heads.

5) 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.

6) 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.

7) 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.

8) 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.

9) **Non-Sharia Compliance Risk controller:**

As per IBRF, Sharia compliance must have Non-sharia risk compliance controller , so the Manager of Non-Sharia Compliance Risk Unit (NSCRU) identifying, measure, monitor, control, and manage Sharia non-compliance risks in the bank arising from failure to comply with Sharia rules and principles as set by IBRF issued by Central Bank of Oman, and Sharia standards issued by AAOIFI, and the Sharia rulings and guidelines issued by Sharia Supervisory Board Assist HoS in identifying the Sharia non-compliance risk parameters for each department or function.

- NSCRU Measure quantitatively the volume of the identified parameters and detect any Sharia non-compliance events for each parameter.
- NSCRU Monitor the development of the Sharia non-compliance parameters during the year periodically.
- NSCRU Provide reasonable control measures to establish assurance of the soundness of operations which prevent violations to Sharia compliance measures and guidelines.

Human Resources

Employees are the driving force behind the Bank's success. Bank Nizwa believes that employees are the major asset for the organization 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 2019.

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 380 employees in 2019. 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

In 2019 HR department has applied many strategic projects that intended to improve over employees' performance, effectiveness and productivity. This has done through focusing on talent management and employees training. Various programs have conducted for all employees' segments. It focused on Top management, middle management and junior employees as well. The Bank also has implemented e-learning and e-library. This is to develop all employees and cater needs for succession planning.

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 2019 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 90% of the Bank's employees attended more than 3000 programs that focus on Islamic Banking Training, Product Development, Sales Leadership, Risk Management, Wealth Management, Corporate and Retail Banking. In addition, The Bank participated in the 5th 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 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 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 helps in speeding many HR processes which include payroll, recruitment, training, adhoc employees; payments, and employees' 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 rapid geographical expansion of the coronavirus COVID-19 and the high contamination rates have spread fear and disrupted global economic activity. This has resulted in global markets to react negatively. To stabilise the markets as well as the economic activity, central banks around the world decided to intervene in various ways to provide the needed fiscal support.

There is no definite assessment of this event and the information as we are getting on China, the epicenter of the outbreak, there are improvements in the situation and the government has also injected liquidity in the system to support the economic environment. However, an escalation of the outbreak could impact the global GDP growth.

The coronavirus outbreak has added to the uncertainties the global oil industry faces however, as per report, the impact of the coronavirus on oil markets may be temporary. We expect with the Oman's government plans for diversification will provide much needed stimulus to economy during the year.

Growth is expected to accelerate in 2020 driven largely by the rise in natural gas output (Khazzan gas field) as production from new fields comes on stream. The potential boost of the government's diversification efforts would continue to facilitate an increase in non-hydrocarbon growth to about 4% annually in the medium-term. The potential boost from the diversification investment spending would continue supporting growth in 2021 and the medium term.

The outlook for 2020 is challenging yet there are opportunities that are created; particularly the idea of diversification as a goal has continually been a mainstay in the successive development plans. It was translated into the initiation of the national programme for enhancing economic diversification called Tanfeedh. Therefore, the diversification process will lead to a paradigm shift in the development of the Omani economy moving along the path from an economy depending primarily on extraction of raw materials to an economy based on efficiency and effectiveness, and passing the transitional phase that leads to an economy that relies on knowledge and innovation.

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. Five promising sectors were selected to contribute as drivers for national economic growth, which are: Manufacturing, Transport and Logistic Services, Tourism, Fisheries and Mining. This is to strengthen the promising sectors in which the Sultanate has a clear comparative advantage. 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.

For the Banking sector, the operating environment is likely to remain challenging in 2020. 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 2020 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.

We are forward focused, shaping the future of banking by innovating, modernizing our operations, and investing in new capabilities. We are constantly looking for ways to adapt and reinvent ourselves while always keeping the customer at the centre of what we do. And while we have always been at the forefront of innovation, the proliferation of digital technologies provides us with opportunities to redefine how our customers see Bank Nizwa and the role we play in their lives. As further described in our Annual Report, we are proud that certain respected industry sources and agencies have ranked Bank Nizwa in their top categories.

In 2020, we will not only focus on what we deliver – but also on how we deliver it. This includes optimizing and simplifying end-to-end business processes and delivering business outcomes more quickly. And, of course, we will continue to empower our colleagues, so that they have the skills to adapt, develop and succeed.

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 are making progress on our strategy to be 'the bank of choice', and are very clear on what we need to do to deliver continued performance in the current economic, regulatory and competitive environment. The enduring strength of the Bank, the commitment of the leadership team, and the continued dedication of our people to our purpose and to our

customers, give a great confidence that we can deliver a bank of which you, as our shareholder, can be proud.

In closing, I would like to acknowledge that we would not have achieved our milestones in 2019 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, Sheikh Khalid Abdullah Ali Al Khalili, 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