

THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD
ENDED 31st March 2018

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 First quarter ended 31st March 2018. These are based on the unaudited condensed interim financial information which has been reviewed by our external auditors.

The first three months of the year were encouraging for Islamic banks as the Islamic finance sector witnessed continuous growth which outperformed the market. We believe that this upward trajectory indicates the importance of the Islamic finance sector which has an enormous potential to grow despite the challenges it faces.

The bank delivered a good set of results in the first quarter of 2018, in spite of challenging operating conditions. The Bank recorded 38% growth in assets 14% growth in revenue from last year during the same period, driven by healthy activity across our various businesses and notable improvements in cost efficiency. During the period the bank also celebrated its 5th anniversary as the first Islamic Bank in the Sultanate. The roster of milestones achieved over the past 5 years is all due to a customer-oriented approach that we have engrained in all our processes.

The Bank's primary focus continued to be on growing the balance sheet in a controlled manner, diversifying revenue streams, control on expenses, improving margins, and expanding products and client base. This is in line with our strategy 2020 which will allow us to take advantage of the growth opportunities in preferred industry sectors and confidently operate in the current environment with challenges that present themselves.

We are confident that the Bank's unchanged strategic pillars and resilient balance sheet leaves us well placed to manage any economic headwinds, whilst continuing to deliver good returns for our customers and improved values for our shareholders.

Raising Awareness

During the quarter the Bank continued to engage with the community to instill the knowledge of the benefits, opportunities and potential of Islamic Banking. We continued our Islamic finance knowledge program in collaboration with Takaful Oman and Al Kawther Fund managed by Tanmia. The program aims to bring Islamic finance knowledge closer to various communities and has to date covered five regions across the Sultanate. In addition, the bank hosted a number of international and local delegations sharing its expertise and speeding the understanding of the core principles of the Islamic Banking Industry.

FINANCIAL PERFORMANCE

The Bank's total assets grew by 38% to reach 775 Million Omani Riyals compared to 562 Million Omani Riyals the same period March 2017. Gross financing portfolio grew by 31% to reach 592 Million Omani Riyals while total customer deposit portfolio reached 609 Million Omani Riyals recording a significant growth of 53%. 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.

Operating income increased by 14% while operating expenses increased by only 4% reflecting dedicated and strategic efforts to cost management. This has led us to achieve a net profit after tax of 1,042 Thousand Omani

Riyals. This is considered an important milestone towards meeting the Bank's strategic plans of improving the performance and write-off the accumulated losses.

FUTURE OUTLOOK

Oman's economy growth is in recovery stage on back of improving oil prices and it is projected that the banking sector's credit will continue to grow, however operating environment will be challenging with fiscal consolidation amid increasing debt weighing on economic growth. The government's initiative of diversifying funding sourcing, tapping the international market, and revision in recent CBO rules has eased pressure on local liquidity however, increased cost of funding still remains challenging for the sector.

We expect Oman's real GDP growth to accelerate to 3% in 2018 and the banking sector credit to grow by 8% to 10%. Crude oil output should recover this year following a slowdown in 2017 due to oil production cuts. Growth in the non-oil sector will be underpinned by investment in infrastructure as the government has initiated public private partnership program through Tanfeedh which will bring investments from domestic and foreign investors. Given that the private sector is expected to play a pivotal role in capital formation, the focus of the government is not only to improve the investment climate and promote public private partnership but also to give significant support to small and medium enterprises by allocating some of the government projects to this sector and to ensure the swift implementation of the National Program for Enhancing Economic Diversification ('Tanfeedh') initiatives. The positive recent fiscal and government initiative providing support to the economy, will increase demand for credit. Household consumption is likely to remain constrained against a backdrop of modest income growth, and increased fuel costs.

The outlook for 2018 remains positive with numerous sectors expecting growth such as manufacturing, tourism, logistics, mining, fisheries and trade. The banking sector 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 Omani model by implementing various regulations to safeguard the country's economy and maintain its growth, through the implementation of a number of new initiatives in line with the government's vision with regards to gradual fiscal consolidation.

Bank Nizwa is committed to spearhead the growth of Islamic finance and lead the segment's market share towards new heights. Our journey and progress to date reflects our dedication to empower communities with progressive and efficient financial solutions. We shall continue working towards our strategy which focuses on financial performance, technological advancement, market share and team culture. We shall continue to deliver innovative products and services designed to meet the needs of our customers by delivering around the clock efficiency, accessibility, and convenience. With this, we are fully confident that the Bank is on a right track to capture future opportunities, support sustainable growth and continue to maximize 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