

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD**  
**ENDED 30<sup>th</sup> June 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 the half-year ended 30<sup>th</sup> June 2018. These are based on the unaudited condensed interim financial information which has been reviewed by our external auditors.

The economic recovery in the Sultanate is gaining traction as domestic demand improves and market sentiment becomes more conducive to growth. Also, the sustained increase in oil prices coupled with strong external demand has given the non-oil activities the needed stimulus. As a result, financial sector with special mentioned to Islamic banking sector witnessed continuous growth. 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 half-year of 2018. The Bank recorded 26% growth in assets 18% growth in revenue from last year during the same period, driven by healthy activity across our various businesses and notable improvements in cost efficiency. This is a record quarterly profit and all the more satisfying as it is supported by growth in our core business. The strong operating performance was underpinned by higher revenue on the back of financing asset growth and improved margins, and a lower cost of risk, further supported by 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 spreading the understanding of the core principles of the Islamic Banking Industry.

**FINANCIAL PERFORMANCE**

The Bank's total assets grew by 26% to reach 773 Million Omani Riyals compared to 613 Million Omani Riyals the same period June 2017. Gross financing portfolio grew by 32% to reach 639 Million Omani Riyals while total customer deposit portfolio reached 619 Million Omani Riyals recording a growth of 40%. 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 18% while operating expenses increased by only 1% reflecting dedicated and strategic efforts to cost management. This has led us to achieve a net profit after tax of 2,618 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.

Despite existing challenging, the bank's balance sheet remains strong due to excellent asset quality and strong capital ratios.

## **FUTURE OUTLOOK**

Oman's economy growth is in recovery stage on back of improving oil prices and it is projected that the banking sector 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, revision in regulations has eased pressure on local liquidity however, increased cost of funding still remains challenging for the sector.

We expect the Oman's real GDP growth to accelerate to 2.1% in 2018 and banking sector credit will grow by 7% to 8%. Crude oil output should recover this year following a slowdown in 2017 due to oil production cuts and the recent OPEC agreement to increase output to reach 100% compliance. Brent is expected to be in the range of USD 65 to 70 during the remainder of the year. 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. The government's efforts to bolster the fiscal position and encouraged implementation of structural reforms to boost private sector led growth, increased economic diversification, created jobs and foster inclusive growth. The planned completion of major infrastructure projects is expected to gradually raise non-hydrocarbon growth to about 4 percent over the medium term. 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 the 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 the remaining 2<sup>nd</sup> half of 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