

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD**  
**ENDED 30<sup>th</sup> September 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 3<sup>rd</sup> quarter ended 30<sup>th</sup> September 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 third quarter of the year. The Bank recorded 26% growth in assets 20% 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, with the latest stop being in Salalah.

## **FINANCIAL PERFORMANCE**

The Bank's total assets grew by 26% to reach 820 Million Omani Riyals compared to 652 Million Omani Riyals the same period September 2017. Gross financing portfolio grew by 26% to reach 670 Million Omani Riyals while total customer deposit portfolio reached 660 Million Omani Riyals recording a growth of 36%. 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 20% 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 4.6 Million 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**

Monetary policy tightening appears to be impacting global growth, while fading support from US tax cuts and rising trade and geopolitical tensions threaten to slow activity in 2019. However, it is expected that the GCC will benefit from increased oil production even as other headwinds remain challenging.

OPEC production is increasing but not significantly enough to prevent prices from spiking up to over USD 85/b. Despite growing international pressure to increase output in order to dampen prices, OPEC has so far held back from dramatically increasing production. However, in recent months, oil production in GCC increased significantly while higher oil prices have dramatically improved the outlook for GCC budgets and provided room for increased government spending in 2019.

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.



According to IMF, Oman's real GDP growth is expected to recover to 1.9% in 2018 and 5.1% in 2019 compared to a sluggish growth in 2017. Continuous growth will rely on the increased hydrocarbon production and higher activity in the services sector. Economic growth, however, will remain lower than historically because oil production will plateau, natural gas demand is sluggish and public spending will remain restrained. Credit growth will be stable at 7%-8% in 2018-19.

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 remainder 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