

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD**  
**ENDED 31st March 2019**

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 31<sup>st</sup> March 2019. 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 2019, in spite of challenging operating conditions. Recorded 15% growth in assets 35% growth in revenue from last year during the same period, driven by healthy activity across both our wholesale and retail businesses and notable improvements in cost efficiency. This is the result of successful execution of our strategy 2020, which requires continued focus on growing the balance sheet in a controlled manner, diversifying revenue streams, control on expenses, improving margins, and expanding products and client base.

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.

**FINANCIAL PERFORMANCE**

The Bank's total assets grew by 15% to reach 895 Million Omani Riyals compared to 775 Million Omani Riyals during the same period in March 2018. Gross financing portfolio grew by 26% to reach 743 Million Omani Riyals while total customer deposit portfolio reached 711 Million Omani Riyals recording a significant growth of 17%. 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 35% while operating expenses increased by only 2% reflecting dedicated and strategic efforts to cost management. This has led us to achieve a net profit after tax of 2.1 Million Omani Riyals. This is considered an important milestone towards meeting the Bank's strategic plans of improving performance and write-off the accumulated losses.

Despite challenging year for liquidity, the Bank's balance sheet remains strong due to excellent asset quality and robust capital ratios.

**FUTURE OUTLOOK**

While markets have started the year in relatively good spirits, with equities and oil prices rising, growth forecasts were trimmed including by the World Bank for 2019. Oman's economy growth is in a recovery stage due to improving oil prices and it is projected that the banking sector credit will continue to grow. The government's initiative of diversifying funding sourcing, tapping the international market, growing domestic money market activities has eased pressure on local liquidity however, increased cost of funding still remains a challenge for the sector.

According to international rating agencies, Oman's real GDP growth is expected to accelerate to 3% in 2019 and we expect the banking sector credit to grow by 6% to 7%. Crude oil output should remain stable this year following an OPEC plus agreement to curb oil production to support price stability. Growth in the non-oil sector will be underpinned by investment in infrastructure as the government has initiated a 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 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 2019 remains positive but operating environment will continue to face challenges due to fiscal consolidation amid increasing debt weighing on economic growth. While, numerous sectors are expecting growth such as manufacturing, tourism, logistics, mining, fisheries and trade; 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, with 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.

Khalid Bin Abdullah Bin Ali Al Khalili  
Chairman