

THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD
ENDED 30th June 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 Second quarter ended 30th June 2019. These are based on the unaudited condensed interim financial information which has been reviewed by our external auditors.

Our results over the first half of the fiscal year are a testament to the strength of our diversified business and our disciplined strategy to grow our business franchises and deliver long term value to shareholders. 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.

We achieved continued growth in our core businesses where we have been investing to create more value for our clients and our shareholders in spite of challenging operating conditions. Recorded 21% growth in assets and 27% growth in operating income from last year during the same period, driven by healthy activity across both our wholesale and retail businesses and control on our cost. 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 leave 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 21% to reach 933 Million Omani Riyals compared to 773 Million Omani Riyals during the same period in June 2018. Gross financing portfolio grew by 23% to reach 786 Million Omani Riyals while total customer deposit portfolio reached 733 Million Omani Riyals recording a growth of 18% compared to the same period in June 2018. 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 27% while operating expenses increased by only 6% reflecting dedicated and strategic efforts to cost management. This has led us to achieve a net profit after tax of 4,295 Thousand 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 a challenging operating environment, the Bank's balance sheet remains strong due to excellent asset quality and robust capital ratios.

FUTURE OUTLOOK

Oman's economic 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 initiatives 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 the World Bank, growth is projected to slow to 1.2% in 2019 as Oman's commitment to the December 2018 OPEC+ output cut constrains oil production. There will be a one-off spike in growth to 6% in 2020 as the government plans to significantly increase investment in the Khazzan gas field. The potential boost from the diversification investment spending would continue supporting growth in 2021 and the medium term. Inflation is expected to pick up to 1.5% in 2019 reflecting higher consumer spending and to further accelerate to an average of about 3% in the period 2020-2021 reflecting the possible introduction of indirect taxes beyond 2019. The budget deficit is projected to rise to 12% of GDP in 2019 due to high public spending amid lower oil prices. The 2019 budget assumes a 3% increase in total expenditure compared to 2018. The introduction of VAT tax has not been confirmed which once implemented will give support to the government in generating revenues.

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 the 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.

The Bank Nizwa is committed to spearhead the growth of Islamic finance and lead the segment's market share towards new heights. We will continue to be well disciplined in the credit underwriting process and we are comfortable with the credit profile of the Bank's portfolios. 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 the right track to capture future opportunities, support sustainable growth and continue to maximize shareholders 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

