

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD**  
**ENDED 30<sup>th</sup> September 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 third quarter ended 30th September 2019. These are based on the unaudited condensed interim financial information which has been reviewed by our external auditors.

Our results over the nine months 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 take a leading role in Oman in driving economic growth and helping communities develop across the Sultanate, going beyond financial services. Our strategy is focused on areas where we believe we can make a significant difference in fulfilling our customers' ambitions and driving financial inclusion whilst supporting businesses, big and small, to succeed in Oman and beyond.

We achieved continued growth in our core businesses where we have been investing to create more value for our clients and our shareholder in spite of challenging operating conditions. Recorded 18% growth in assets 24% growth in revenue 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 18% to reach 967 Million Omani Riyals compared to 820 Million Omani Riyals during the same period in September 2018. Gross financing portfolio grew by 19% to reach 800 Million Omani Riyals while total customer deposit portfolio reached 762 Million Omani Riyals recording a growth of 15% compared to the same period in September 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 24% while operating expenses increased by only 8% reflecting dedicated and strategic efforts to cost management. This has led us to achieve a net profit after tax of 7,040 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 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 the IMF, growth in the Middle East and Central Asia generally was downgraded to 0.9% for 2019 and to 2.9% for 2020. Lower oil production growth, as part of the OPEC+ production cut agreement, is dragging on regional output. IMF projects the real GDP growth of Oman is projected to slow to 1.2% in 2019 as Oman's commitment to the OPEC+ output cut constrains oil production. 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 relatively lower oil prices.

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 positive recent fiscal and government initiative providing support to the economy will increase demand for credit. The planned completion of major infrastructure projects is expected to gradually raise non-hydrocarbon growth over the medium term. The government's recent policy actions, including the introduction of a new National Program for Fiscal Balance (Tawazun), could present an opportunity to fast track fiscal consolidation by cutting spending and improving revenue collection. The near-term planned privatization of two SOEs could also provide some temporary fiscal relief. 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.

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.

## **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**