

THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD
ENDED 30th June 2020

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 half ended 30th June 2020. These are based on the unaudited interim financial information which has been reviewed by our external auditors.

This quarter we achieved the most important milestone of clearing out accumulated losses which we achieved in the most challenging time ever. The year 2020 will be remembered as a year of a historical milestone for the bank. These achievements are a reflection of our position as the largest and fastest-growing full-fledged Islamic Bank in the Sultanate. In this message, I am pleased to highlight the progress we made in 2020 towards achieving our strategic ambitions and to set out our plans to navigate the Bank with the current challenges.

OUR RESPONSE TO COVID-19

As the country is combating with the global outbreak of COVID-19, Bank Nizwa pledged OMR 600 thousand despite the relatively smaller operations, as a part of our Corporate Social Responsibility and to support the community response efforts. This is additional to the relief we are giving to our customers most affected by the pandemic. We acknowledge that this is an evolving situation that requires a coordinated and sustained response and we are actively coordinating with our customers who are in the greatest needs and will continue delivering the right support where it's needed most.

Much of the second quarter of the country was in strict lockdown between governates. Despite this, Bank Nizwa continued to provide full, uninterrupted banking services to our customers and the wider community. I want to express my gratitude to our staff who helped customers continue to bank safely and securely during these unprecedented times.

FINANCIAL PERFORMANCE

Since the beginning of 2020 as the COVID-19 outbreak started, the business environment became challenging for the financial services industry. The start of the year was surrounded by uncertainties on several fronts, from disruption because of the pandemic, lowest crude oil prices to the weakening of growth in key economic sectors which all impacted the liquidity position in the system and increased competition in the market.

Against this backdrop, your Bank has turned in a commendable financial performance by registering the highest net profit growth in the industry and cleared accumulated losses. This is the result of our ability to adapt to the economic realities including the competitive environment in which we operate and a resilient balance sheet. This milestone was achieved while focusing on our commitment to provide unsurpassed customer experience and adhering to the core values that formed our institution.

We achieved continued growth in our core businesses where we have been investing to create more value for our clients and our shareholder. Recorded 9% growth in shareholder's equity and 15% 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 the 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, enhancing our digital capabilities, and expanding products and client base.

The Bank's total assets grew by 14% to reach 1,061 million Omani Riyals compared to 933 million Omani Riyals during the same period in June 2019. Gross financing portfolio grew by 14% to reach 898 Million Omani Riyals while the total customer deposit portfolio reached 839 Million Omani Riyals recording a growth of 14% compared to the same period in June 2019. 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 15% while operating expenses increased by only 3% reflecting dedicated and strategic efforts to cost management. This has led us to achieve net profit after tax of 5,888 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.

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.

FUTURE OUTLOOK

The coronavirus pandemic, while easing in some countries, continues to register exponential growth in new cases in many others, and is unlikely to be suppressed globally in the next two quarters. As such, it will continue to weigh on economic activity around the world despite authorities' best efforts on both the fiscal and the monetary side. The impact of this on global economies once the pandemic is over is unknown but potentially will have a long-lasting and significant effects

GCC economies are faced with further challenges of lower oil production, sharply lower oil prices which impacted the revenue and contracting demand impacting non-oil sectors this year. It is expected that the GDP growth of GCC will be negative but it will not be as severe contraction as in other regions because a long cycle of dull growth rate and was just 0.7% at an average in 2019.

The significant improvement in oil prices in Q2 was mainly because of the major supply-side adjustments. OPEC+ deal on a production cut and the subsequent 100% compliance by the members helped restore confidence in the oil outlook. However, the support from the supply side of the oil market is going to be limited from here on and will be driven mainly by the consumption and demand. It is expected that the oil price to be range-bound in USD 37/bl – USD 45/bl.

According to the World Bank, Oman's economy is expected to contract in 2020 due to the oil price slide and the COVID-19 public health response. An increase in gas output and infrastructure spending plans will help growth recover over 2021-22. Fiscal and external deficits will remain under strain due to low oil and gas prices.

Continue low oil prices and the spread of COVID-19 are the key challenges that are impacting the economy in the short-run. With the improvement in demand and the re-opening of economies, overall economic activities are expected to improve from 2021.

We remain committed to supporting our economy and will work with affected customers to ensure viable solutions are provided to cushion the impact and improve. We will also proactively engage with our customers to address potential financial challenges given the softer economic landscape as we do anticipate challenges in the operating environment.


The Bank will leverage on its diversified segment base to drive revenue growth, enhance customers' experience through digital innovations, and continue up-skilling our workforce to improve productivity.

With the resilient balance sheet and successful business model, we will navigate these challenges and shall continue working towards our strategy which focuses on asset quality, financial performance, technological advancement, market share, and team culture.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, Executive Management and staff, I would like to express our sincere gratitude to His Majesty Sultan Haitham bin Tariq Al 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.

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