

THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD
ENDED 30th September 2023

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 nine-month period ended 30th September 2023. These are based on the unaudited condensed interim financial information.

Earlier this year, the world economy encountered substantial fluctuations, mainly attributable to a surge in prices resulting from pent-up demand, disruptions in supply chains, and elevated energy costs. Consequently, households and small businesses were affected by this strain. As a consequence, inflation reached historic highs in major economies, compelling central banks globally to raise interest rates in an attempt to manage it. Consequently, monthly inflation rates have started to slow down. The instability in prices has had a cascading impact on economic growth, especially in emerging economies.

However, the government of Oman has undertaken reform programs with the objective of sustaining economic recovery and achieving stability within the country's economy during this period. As a part of these initiatives, the government successfully managed to repay OMR 1.1 billion, resulting in a reduction of the total debt to OMR 16.6 billion, thereby lowering the Debt-to-GDP ratio to 42%. As per reports, further decline is expected in Debt-to-GDP to 36% which is favorable for the country. Despite facing challenges in the form of rising borrowing costs, the government effectively mitigated these expenses by bolstering the country's reputation in global markets.

These positive advancements, combined with ongoing reforms, improved revenue streams, and better expenditure control, have garnered positive recognition from global rating agencies, leading to an upgraded outlook for Oman. The World Bank predicts that Oman's economy will grow at an impressive pace of 4.3 percent, the fastest among the GCC nations. This notable progress has not only strengthened the government's sovereign balance sheet but has also brought about various other advantages, ultimately contributing to the consolidation of economic growth. As a result, Moodys Investors Services upgraded Oman's rating to Ba2 with positive outlook.

At Bank Nizwa, we firmly uphold the belief that Islamic banking serves a greater purpose, and our unwavering commitment is to enhance the lives of our valued customers and communities. Amidst the challenging times of the past two years and during the ongoing recovery phase, we have played a pivotal role in facilitating government programs that offer essential aid to households and businesses. Our dedication remains steadfast in providing continued support to our communities as they navigate through the ongoing process of economic recovery.

FINANCIAL PERFORMANCE

During the year, your Bank has turned in a commendable financial performance by registering nine percent growth in net profit. 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.

We achieved continued growth in our core businesses, where we have been investing in creating more value for our clients and our shareholders. Recorded 3% growth in shareholder's equity reflecting robust organic capital generation, and 6% 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 results from the successful execution of our strategy 2025, which requires continued focus on growing the balance sheet in a controlled manner, diversifying revenue streams, controlling expenses, improving margins, enhancing our digital capabilities, and expanding products and client base.

The Bank's total assets grew by 6% to reach 1,570 million Omani Riyals as of Sep 30, 2023, from 1,487 million Omani Riyals compared to the same period last year. The gross financing portfolio grew by 9% to reach 1,321 million Omani Riyals, while the total customer deposit portfolio dropped slightly to 1,200 million Omani Riyals recording a drop of 1% compared to the same period last year. The growth in 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.

An increase in operating income by OMR 2.4 million (6% YoY) while the increase in operating expenses by OMR 1.6 million (9% YoY), reflects dedicated and strategic efforts to cost management. This has led us to achieve a net profit after tax of 11.7 million Omani Riyals for the three quarter in 2023. This outcome is considered an essential milestone towards meeting the Bank's strategic plans of improving performance.

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.

Further to the proposal of merging Bank Nizwa SAOG with Sohar International SAOG, with an aim to build greater synergy and scale to deliver more value to our shareholders, we are currently in the process of due diligence and any progress on this transaction will be as per the regulatory requirements and accordingly investors will be informed through MSX as and when there are any material updates.

FUTURE OUTLOOK

Despite the challenges faced by developed and emerging markets due to factors like rising inflation, higher interest rates, and market volatility, Oman's economy has shown remarkable resilience, mainly due to the revival of the hydrocarbon sector and effective government policies. Even amidst the projected global growth slowdown in 2023, Oman's real GDP is expected to surge by 2.5%, driven by increased hydrocarbon production and a continued recovery in non-hydrocarbon economic activities.

The outlook for the year 2023 remains optimistic, supported by improvements in government revenues. Various sectors, including manufacturing, healthcare, technology, communication, mining, sustainable energy, fisheries, food, trade, and other services, are anticipated to experience growth.

In this dynamic economic landscape, the country's banking sector, including Islamic banking, is expected to remain resilient despite the volatile global economic conditions. Bank Nizwa, in particular, is well-prepared to seize future opportunities and deliver optimal value to its shareholders. The recent upgrades in outlook and ratings by esteemed international agencies like, Fitch, Moody's and S&P underscore the confidence in the government's reforms and the strength of the banking system. Oman is now one notch below the investment grade, BB+ rated by Fitch with stable outlook.

ACKNOWLEDGMENT

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.

We are thrilled to celebrate our 10th anniversary, which was made possible by our hardworking employees, loyal customers, and supportive regulators and shareholders. Over the past decade, we've achieved significant milestones, including expanding our operations and diversifying our services. We're grateful to everyone who has contributed to our success and excited to continue thriving in the future with their support. Thank you for being part of this journey, and we look forward to celebrating many more milestones together.

Khalid Bin Abdullah Bin Ali Al Khalili
Chairman