

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD
ENDED 30th September 2022**

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 2022. These are based on the unaudited condensed interim financial information.

After the re-opening surge in 2021, growth in 2022 has created a positive sentiments in the global economy. Supported by significant pent-up demand and rising prospects of continued government reforms programs to help sustained economic recovery. We expect an accelerated pace of growth in the coming months to drive a robust economic recovery through 2022, resulting in economic growth. According to the IMF, Oman's economy is expected to grow by 4.3% in 2022 and 2.5% in 2023. The revenue and spending efficiency are expected to rise while the public debt is projected to decrease in the medium term.

At Bank Nizwa, we believe Islamic banking serves a higher purpose – and we continue to fulfil ours: enriching the lives of our customers and communities. From the depths of the difficult period last two years to the recovery that is now emerging, we have helped facilitate the government programs that remain a lifeline for so many households and businesses; and we remain committed to providing ongoing support for our communities.

FINANCIAL PERFORMANCE

The start of the year 2022 was encouraging, underpinned by demand, improved crude oil prices and global recovery as a result of improved economic activities.

During the year, your Bank has turned in a commendable financial performance by registering eighteen 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 2% growth in shareholder's equity reflecting robust organic capital generation, and 16% 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 7% to reach 1,487 million Omani Riyals as of September 30, 2022, from 1,385 million Omani Riyals compared to the same period last year. The gross financing portfolio grew by 8% to reach 1,218 million Omani Riyals, while the total customer deposit portfolio reached 1,210 Million Omani Riyals recording a growth of 13% compared to the same period last year. This growth in financing and deposit 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 5.3 Million (16% YoY) while the increase in operating expenses by OMR 1.6 Million (10% YoY), reflects dedicated and strategic efforts to cost management. This has led us to achieve a net profit after tax of 10.7 Million Omani Riyals for the nine months in 2022. 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

After a rebound in calendar 2021, the outlook for the global economy in 2022 has been downgraded in large part because of Russia-Ukraine conflict. In addition to the direct impacts in the affected regions and related financial market volatility, the conflict has pushed prices higher for many commodities including oil, natural gas, and wheat.

In contrast, Oman economy continue to gain traction, supported by revival in the hydrocarbon sector and the relaxation of Covid-19 social restrictions. High oil prices, continued fiscal consolidation under the authorities' Medium Term Fiscal Plan, and determined implementation of structural reforms under Oman Vision 2040, are expected to generate fiscal and external surpluses and support higher growth over the medium term.

The sultanate's total budget surplus increased to RO1.09 Billion for the January–August period of 2022 against a deficit of RO1.05 Billion in the same period of 2021, as per the data released by Ministry of Finance. According to IMF, Oman's overall GDP growth is projected at 4.3 percent in 2022, supported by increased hydrocarbon production and continued recovery of non-hydrocarbon economic activity. CPI inflation has been contained thus far, however, expected to push up average inflation to 3 percent in 2022.

Oman's economy is on a solid path to recovery amid the easing of pandemic pressures, higher hydrocarbon outputs, and wide-ranging government reforms. Fiscal reforms are expected to turn the country's fiscal and current account deficits into surpluses, and it is expected that surplus will continue in 2023 which will help improving debt to GDP ratio which will drop from 62.9% in 2021 to 44% of the GDP by the end of 2022. Rising hydrocarbon production, improved non-oil revenues, and the rationalization of expenditure could strengthen fiscal and external positions.

Recently Moodys Investors' services upgraded Oman's outlook to positive, and affirmed its long-term rating at Ba3, while fitch upgraded the rating to BB from BB- with stable outlook. This upgrade in outlook has also resulted in upgrade of Bank Nizwa outlook to positive by Moodys. As per IMF, Oman banking system financial soundness indicators appear healthy, benefiting from the strong buffers created as per the Central Bank of Oman requirements, helped weathered the recent shocks.

The ratings agency affirmed Oman's long- and short-term foreign and local currency sovereign credit ratings. This is due to the policies and procedures undertaken by the Sultanate to address economic and health challenges, coupled with improved oil prices leading to a decline in fiscal deficits and net government debt over the next three years.

Oman has embarked upon a development program to shift the economy to a more private sector footing by developing small and medium-sized enterprises, public-private partnerships (PPPs) and improving the investment climate. The short-term challenge will be overcome in the medium- and long-term. The government initiatives and reforms in revenue collection will continue yielding results, which will help mitigate vulnerabilities and alleviate pressure on public finances.

The outlook for the remainder of 2022 is optimistic supported by an improvement in government revenues. While numerous sectors expect growth, such as manufacturing, healthcare, technology, communication, mining, sustainable energy, fisheries, food, trade and other services, the banking sector will continue to capitalize on its key competitive advantages to show further resilience in a volatile global economic backdrop.

Bank Nizwa has a resilient balance sheet, and a strength to adapt and will remain focused on delivering for clients, employees, communities, and shareholders. We are committed to spearheading Islamic finance's growth and solidifying our leadership in the sector, leading the market share towards new heights.

We are fully confident that the Bank is on the right track to capture future opportunities, support sustainable growth, and maximize shareholder value.



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.

I also want to thank our shareholders for their ongoing support; our customers for the opportunity to serve them every day; and our employees for their continued hard work and commitment to providing legendary service to our customers. We look forward to continuing to earn and sustain your trust in 2022.

Khalid Bin Abdullah Bin Ali Al Khalili
Chairman

conqueror