

**THE BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL PERIOD
ENDED 31st MARCH 2021**

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 quarter ended 31st March 2021. These are based on the unaudited condensed interim financial information.

As we approach a year into a global pandemic, we are encouraged by both the number and efficacy of vaccines. 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 vaccination distribution over the coming months to drive a robust economic recovery through 2021, resulting in GDP growth. According to the IMF, Oman's economy is expected to grow by 1.8% in 2021 and 7.4% in 2022.

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 crisis last year 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

Since the COVID-19 outbreak started, the business environment became challenging for the financial services industry. The start of the year 2021 was encouraging, underpinned by demand, improving crude oil prices and globally rolling out the vaccine. However, there are uncertainties on several fronts, from prolong disruption because of the pandemic, which is a significant threat to the 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 eight 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 shareholder. Recorded 8% growth in shareholder's equity and 24% 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 18% to reach 1,252 million Omani Riyals than 1,059 million Omani Riyals during the same period in March 2020. The gross financing portfolio grew by 19% to reach 1,047 Million Omani Riyals, while the total customer deposit portfolio reached 957 Million Omani Riyals recording a growth of 14% compared to the same period in March 2020. 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.

An increase in operating income by 24% while the increase in operating expenses by only 7% reflects dedicated and strategic efforts to cost management. This has led us to achieve a net profit after tax of 3 million Omani Riyals. 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.

FUTURE OUTLOOK

Given the speed with which governments implement vaccination programs, the reforms government is introducing, the strategic policy initiatives and the measures are taken will support the recovery from the effects of the pandemic on economic activity and the details given below gives our opinion that the Country is on the path of the development and prosperity and Bank Nizwa is ready to play its crucial role in the national agenda.

With the start of the year, oil markets appear to be in solid shape. Inventories are falling, and demand indicators are pointing upward, albeit modestly. Higher oil prices and significant progress with Covid-19 vaccine rollouts supports the outlook for the GCC economies. However, budget deficits are likely to remain substantial, limiting the scope for additional fiscal stimulus to support recovery and more debt issuance expected from the region this year, given the lower rates scenario globally.

Despite the challenges resulting from COVID19, Oman is set to embark 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 start yielding results, which will help mitigate vulnerabilities and alleviate pressure on public finances.

VAT implementation with effect from April 2021 within the Sultanate expects to positively impact economic and social development and fuel the Sultanate's international competitiveness. Other positive results will be improving public services within the Sultanate and the sustained growth of future infrastructure and more stable tax income to help predict economic conditions.

The Government's efforts to bolster the fiscal position as per the National Program for Fiscal Balance (Tawazun) encouraged structural reforms to boost private sector-led growth, increased economic diversification, created jobs and fostered 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 raise non-hydrocarbon growth over the medium term gradually.

The outlook for 2021 has some uncertainties led by COVID impact on the operating environment and increasing debt weighing on economic growth. However, with an improvement in revenues, the economy is expected to recover from the situation.

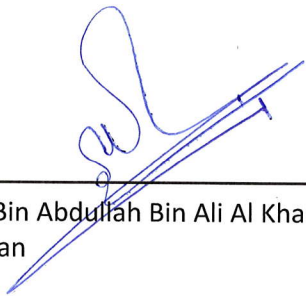
Challenges will persist in 2021; however, as demonstrated in 2020, Bank Nizwa has the strength to adapt and will remain focused on delivering for clients, employees, communities, and shareholders. We are committed to spearheading Islamic finance's growth and solidifying our leadership in the sector, leading the market share towards new heights. The plan for capital raising will help shape the Bank for the future and generate more organic earnings. Indeed, when combined with the Bank's prudent risk management, diversified business mix and proven ability to steer through significant headwinds, the Board remain confident in Bank's growth strategy.

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 2021.



Khalid Bin Abdullah Bin Ali Al Khalili
Chairman