

Board of Directors’ Report for the period ended 30th June 2025

Dear Shareholders,

On behalf of the Board of Directors of Muscat Finance SAOG, I am pleased to present the Directors’ report for the quarter ended June 2025.

Macroeconomic and Business Environment

The second quarter of 2025 witnessed Oman’s economy maintaining its path of stability and growth, underpinned by the continued execution of Oman Vision 2040 and efforts towards economic diversification. Real GDP grew by 2.5%, with the non-hydrocarbon sector expanding by 4.4%. The International Monetary Fund (IMF) projects real GDP growth to exceed 3% annually from 2025 to 2029, reflecting a positive trajectory that supports our operational environment.

The macroeconomic landscape continues to be favorable, with broad money supply (M2) expanding to RO 25.4 billion, a growth of 6.9% compared to May 2024. The liquidity in the financial system remains ample, fostering lending and investment opportunities. Omani domestic inter-bank lending rate dropping to 4.394% in May 2025 from 4.457% in December 2024 and 5.501% in May 2024, fostering a conducive environment for financing activities. Inflation remained moderate, with the Consumer Price Index (CPI) showing a year-on-year increase of 0.6% as of May 2025, according to the Central Bank of Oman (CBO). This stability is a testament to the CBO’s effective monetary policies.

Despite this resilience, global risks such as escalating trade wars pose challenges. A planned 10% tariff on all imports by the world’s largest economy, along with additional "reciprocal" duties on certain countries, could impact global trade. This has prompted International Monetary Fund (IMF) to downgrade its 2025 global growth forecast to 2.8%, down from an earlier projection of 3.3%. Global debt has risen by USD 7.5 trillion in Q1 2024 to reach a record high of over USD 324 trillion, driven by global governmental spending amidst elevated interest rates. While GCC states may experience limited direct impact, indirect effects such as supply chain disruptions and oil price volatility could present challenges for Global economy. Rising US inflation may also delay interest rate cuts, which might also have a bearing on monetary policy decisions by CBO. To mitigate these risks, we are enhancing our risk assessment frameworks and diversifying our lending portfolio to focus on resilient segments.

Business Results

In the second quarter of 2025, your Company strategically moderated new business following substantial growth in the second half of 2024. This allowed us to assess portfolio behavior and significantly strengthen liquidity buffers, positioning the Company for its next growth phase. Our focus remains on securing high-quality business at optimal pricing.

As a result, Gross Investment in Finance Debtors reached RO 155 Million as of June 30, 2025, an increase from RO 139 Million a year earlier, though a slight moderation from RO 159 Million reported on March 31, 2025. Correspondingly, Net Investment in Finance Debtors expanded to RO 98 Million as of June 30, 2025, up from RO 92 Million in the prior year, and a modest decrease from RO 100 Million in the previous quarter.

For Q2 2025, your Company recorded a net profit of RO 520K and an operating profit of RO 1,706K. Notably, operating profit before working capital changes for the first six months of 2025 increased to RO 3,854K, compared to RO 2,762K in the same period last year. A portion of this was strategically utilized to reduce liabilities, including high-cost debt.

The financial results are summarized below:

Amount in RO’ 000			
PARTICULARS	YTD 30 th June 2025	YTD 30 th June 2024	% change
Net investment in finance debtors	97,517	91,641	6

Gross income	5,620	4,569	23
Total expenses including interest cost	(3,914)	(3,671)	7
Operating profit	1,706	898	90
Net profit after tax	520	149	249

Sustainable Lending and Social Impact

Your Company remains committed to sustainable financial inclusion, aligning with Oman's national objectives. In Q2 2025, we continued our focus on retail lending, a key driver of sustainable development. The quick mortality rate—defined as accounts turning non-performing within one year of disbursement—registered a marginal uptick to approximately 0.7% in Q2 2025. This compares with 1.1% in 2021, 0.6% in 2022, 0.3% in 2023, 0.2% in 2024, and 0.4% in Q1 2025. While this increase reflects broader credit cycle dynamics, it was partially mitigated by enhanced pricing strategies implemented in the retail segment. As a prudent measure, Your Company decided to increase the cost of risk by 85 basis points to 2.83%, enhancing our provision coverage to 73.2% as of June 30, 2025, up from 72.5% on March 31, 2025. The coverage ratio remains significantly above the industry average of 64.4% as of March 31, 2025.

Beyond our core financial activities, Your Company actively supports Oman's youth development. This quarter, we launched a program to finance promising employees to pursue ACCA (Association of Chartered Certified Accountants) qualifications. Additionally, we are providing learning and employment opportunities, including on-the-job training, with potential for full-time employment for talented young Omanis.

Funding Strategy

Your Company continues to execute its strategy of maintaining a diversified funding base with moderate cost. We actively manage a mix of funding sources, including bank lines and corporate deposits. This quarter, we significantly strengthened our liquidity buffers, leading to a remarkable 912% improvement in unutilized available banking limits – a key liquidity metric. This was achieved by deepening our relationships with banks and corporate depositors. Corporate Deposits, a vital diversification tool, increased by 20.5% quarter-on-quarter and 34.4% year-on-year, reaching RO 25.8 million as of June 30, 2025. Our emphasis on strengthening Corporate Deposits fosters mutually beneficial relationships: depositors benefit from attractive yields on their funds, while Your Company gains from enhanced funding diversification at a lower cost and opportunities for cross-selling.

Your Company is also poised to become the first Finance and Leasing Company (FLC) to launch a bond program. We have appointed a reputable investment bank and secured the necessary approvals to issue the first tranche under this program. This initiative will enable broader participation from investors, who can benefit from competitive rates offered by Your Company. With these fortified liquidity buffers, Your Company is well-positioned to capitalize on future growth opportunities.

Pioneering Digital Excellence for Unparalleled Customer Satisfaction

Technology is the foundational pillar of Your Company's mission to deliver exceptional operational efficiency and a seamless customer journey. As an industry trailblazer, Your Company revolutionized lending nearly a decade ago by introducing Oman's first loan origination system within the FLC sector. Building on this legacy, we developd and implemented a cutting-edge loan origination platform in Q1 2025. In Q2 2025, we further expanded integrations on this system and are currently testing electronic KYC and Digital Application Signatures, progressing towards our goal of end-to-end digitization of the customer journey. Our ambition is to become the first FLC to achieve instant loan disbursements through fully digital process, with minimal human intervention and without compromising asset quality.

Recognizing the pivotal role of mobile channels in today’s customer lifecycle, Your Company is developing an innovative mobile application set to redefine convenience. This state-of-the-art app, incorporating advanced technologies, will offer a seamless, end-to-end experience, including direct loan origination, ensuring customers can access our services anytime, anywhere. The development of this mobile application is progressing on schedule for launch within the current year.

Looking ahead to the remainder of 2025, Your Company anticipates that technology will continue to reshape the financial services landscape. Our commitment is unwavering: to harness these advancements to deliver secure, efficient, and customer-centric solutions while upholding operational excellence.

Business outlook for the year 2025

Oman’s economy continues to demonstrate robust resilience and a positive outlook, bolstered by recent credit rating upgrades and strategic diversification efforts. A significant milestone was achieved in July 2025 with Moody's upgrading Oman's credit rating to investment grade ("Baa3" from "Ba1") with a stable outlook. This follows a similar upgrade by S&P in September 2024 to "BBB-" with a stable outlook, and Fitch's affirmation of its "BB+" rating with a positive outlook in December 2024. These upgrades collectively reflect improved public debt indicators, a strengthened financial position, and efficient fiscal management, which enhance the government's ability to absorb economic shocks and are expected to result in a lower cost of borrowing for the Sultanate. Overall, Oman’s economic landscape remains supportive, effectively balancing domestic strengths against global uncertainties.

Oman's proactive efforts to diversify its income sources are fundamental to its long-term fiscal stability. The nation's strategic location, robust infrastructure, and well-developed free zones are positioning it favorably to capitalize on evolving global supply chains, leading to increased re-exports and foreign investment. Notably, Foreign Direct Investment (FDI) in Oman saw a significant increase of 20.59% to approximately OMR 30.61 billion by the end of Q1 2025, with substantial contributions from key sectors such as oil and gas extraction, manufacturing, and financial intermediation.

Looking ahead, the International Monetary Fund (IMF) projects Oman’s real GDP to grow at 3% annually through 2029, driven primarily by the expanding non-oil sectors. This positive forecast, coupled with the Central Bank of Oman's facilitative monetary policy, is anticipated to sustain healthy credit growth and investment across the economy.

Your Company will continue to closely monitor both global and local economic developments, adapting its strategies to capitalize on emerging opportunities while prudently mitigating potential risks. We are favorably positioned to benefit from these positive economic tailwinds.

Acknowledgement

On behalf of the Board and the Company, I would like to express our sincere gratitude and best wishes to His Majesty Sultan Haitham Bin Tariq to lead the Sultanate of Oman with his wisdom and vision, towards a path of prosperity.

I would like to thank His Majesty’s Government, the Central Bank of Oman, the Financial Services Authority and other regulatory Authorities for their continued support and guidance. We are grateful to customers for their continued patronage and support, to our bankers and depositors for their unwavering trust and support, and to all the shareholders for the confidence reposed in its Board. On behalf of the Board, I would like to express our appreciation to all stakeholders, the dedicated management and staff of the Company for their hard work, commitment, and support.

On Behalf of the Board of Directors

Mr. Faisal Mohamed Al Yousef

Chairman

Muscat Finance SAOG