

DIRECTORS' REPORT

For the Period ended 30 September 2016

Dear Shareholders

On behalf of the Board of Directors, it's my pleasure to present to you the unaudited results of the Group and the Parent for the period ended 30 September 2016. Despite an exceptionally difficult environment for local and regional businesses, OMINEVST's performance in 2016 has been relatively resilient. Your company remains in a strong position to continue to enhance long-term shareholder value.

Our Portfolio Companies – Recent Performance & Direction

While OMINVEST maintained healthy performance during the 1st half of 2016, some of our portfolio companies witnessed unexpected profit declines during the 3rd quarter of 2016. The declines were attributable to sharp rise in provisions and contraction in operating margins. In particular, our main subsidiaries Oman Arab Bank and National Life & General Insurance temporarily faced difficult market conditions during the last quarter. We believe the business and financial conditions for these companies are beginning to improve. On the brighter side, most of our other major subsidiaries & associates (ONIC, National Finance, Oman Orix Leasing and IGI) achieved healthy revenue growth and steady profits – partially offsetting the weak results from other subsidiaries.

Regional Macroeconomic – Future Outlook

Oil prices snapped back from a low of \$29/barrel in February 2016 to around \$50/barrel at end Oct 2016. With OPEC trying to stabilize oil market through coordinate output caps and cuts, it seems that oil has found a bottom around mid-40s and will likely hover around \$50-\$60/barrel range, over the next year. This bodes well for the overall sentiment. In addition, Omani and other GCC governments have successfully raised capital from international investors at attractive yields. It has eased liquidity conditions and financial stress in the system. Going into 2017, we expect regional governments, quasi-sovereigns and major banks & corporations to further tap international debt markets to boost their finances and liquidity positions. These developments have defused panic situation in the markets and helped restore confidence among businesses and investors. As a result, our operating businesses are looking forward to a period of stability and resumption of growth.

OMINVEST's Strategic Focus and Major Initiatives

OMINVEST's business model entails reducing concentration and reliance on any one major portfolio company. Through prudent diversification across sectors and geographies, we aim to further diversify our revenue base. It will enhance stability & growth and help mitigate downside risks caused by sudden and sharp economic

downturns, such as the current contraction which has been precipitated by severe and prolonged decline in oil prices.

To achieve our strategic goals, OMINVEST is focusing on the following six major initiatives: (i) further build our presence in the banking sector and help improve performance of our strategic investments, (ii) expand our footprint in the regional insurance sector through organic expansion and bolt-on acquisitions, (iii) explore strategic collaborations among our leasing associates to realize synergies, (iv) build and grow our investment banking and asset management platform to generate fee income, (v) develop a diverse and high quality portfolio of financial investments in public and private equity through our new subsidiary ONIC, and (vi) establish a top-tier real estate investment and projects advisory business. We believe these initiatives, which are already well under way, will help diversify our revenue streams and create durable value for the shareholders.

Group Consolidated Performance

During the first nine months of 2016, total Group revenues rose by 81% to RO 161.2m, while Group net profit declined by 23% to RO 21.7m, over the same period in 2015. OMINVEST's share of the Group net profit stood at RO 15.1m, compared to RO 17.8m, a decline of 15% over the same period in 2015. The decline in net profit was attributable mainly to the short-term underperformance of our main subsidiaries: Oman Arab Bank's (OAB) Net Income declined by 36% and National Life & General Insurance's Net Income declined by -20%. We were able to partially offset the decline from strong growth in our new subsidiary Oman National Investment Corporation (ONIC) which recorded a net profit of RO 5.1m for the period ended 30 September 2016. The share of profit from our 11 associate companies also contributed to sustain the current level of OMINVEST's net profit for the period ended 30 September 2016.

Parent Company Performance

During the first nine months of 2016, total revenues declined by 1% to RO 21.3m and Parent net profit declined by 11% to RO 15.8m, over the same period in 2015. As of 30 September 2016, total assets of the Parent Company increased by 49% to RO 353.7m compared to RO 236.8m at 30 September 2015. Similarly, shareholders' equity of the Parent Company rose to RO 220.6m compared to RO 149m as at 30 September 2015. Amid challenging business conditions, OMINVEST tightly controlled its operating expenses, which stayed flat compared to last year. Our Cost to Income Ratio stood at around 12%, among the lowest versus peers in the region. During the current downturn, we opportunistically increased leverage at competitive rates to be able to buy high quality businesses at attractive valuations and dividend yields, putting in place a recurring stream of yearly dividends and potential for capital gains over the long term. As a result of our opportunistic investments, our Debt / Equity ratio modestly increased to 60%. We still have a huge capacity to borrow more at attractive rates to build our investment portfolios. However, we are proceeding with caution and are very selective in allocating capital to new opportunities.

Our Major Subsidiaries

Oman Arab Bank (OAB), our banking subsidiary, increased its Net Loans & Advances by 11% to RO 1.6bn and Customer Deposits by 10% to RO 1.7bn by 30 September 2016 compared to same time last year. OAB reported a profit of RO 13.5m for the period ended 30 September 2016, a decline of 36% as compared to last year, primarily due to sudden rise in cost of funding amidst a liquidity crunch, drop in non-interest income and sharp rise in provisions. While the Bank's profit growth has temporarily slowed in this challenging environment, we remain confident about its long-term growth prospects. OAB has a strong balance sheet, an established brand, committed shareholders, well-anchored and growing market position. We are confident that OAB will continue to deliver robust and steady performance, over the long term.

National Life & General Insurance Company (NLGIC), our subsidiary in the insurance sector, continued its high growth trajectory with net insurance premiums rising by 33% to RO 40.5m for the first nine months of 2016, signifying the underlying growth in the broader insurance sector and more importantly major gains in NLGIC's market share. However, top line growth was offset by a rise in claims and expenses in the first nine months of 2016. Consequently, NLGIC's net profit declined by 20% to RO 2.5m. Despite these short-term challenges, we believe that NLGIC's growth prospects are strong and its recurring revenues from insurance business are stable and on a clear growth trend. NLGIC is already in a leading position in the Omani insurance market and growing fast in the UAE. The company is looking to broaden its footprint in the regional markets through organic growth and acquisitions. We expect NLGIC to deliver robust profit growth over the next 3-5 years.

Oman National Investment Corporation SAOC (ONIC), our new subsidiary that manages all financial investments of OMINVEST across private equity, public equity, fixed income and other structured investments, reported a net profit of RO 5.1m for the period ended 30 September 2016. The profit was mainly due to the investment income realized from ONIC's public equities portfolio. We expect ONIC to further enhance and diversify its investment income and become one of the largest contributors to OMINVEST's future profits and growth. We have recently hired a highly experienced Omani national as the General Manager for ONIC and also appointed a team of dedicated and qualified professionals to help achieve our vision and to take ONIC to higher milestones.

Our Major Associates

During the first nine months of 2016, our share of profit in the associate companies rose to RO 5.6m compared to RO 1.9m, a growth of 192%, as a result of merger with ONIC Holdings in 2015 which increased our total number of associates from 3 to 11. Our investments in Associate companies help enhance and diversify our income sources – ensuring steady profitability for years to come.



OMINVEST owns significant equity stakes in both National Finance Company (NFC) and Oman Orix Leasing Company (OOLC). Recently, NFC approached OOLC to initiate discussions to explore mutual strategic collaboration to realize any potential value creation and synergies. OMINVEST, being a major shareholder, is highly supportive of this initiative. We believe that current business environment necessitates further improving our portfolio companies' efficiencies to create durable value for all shareholders.

I am pleased to update you that OMINVEST, along with its Strategic Partners OIF and Arab Bank (Switzerland) Ltd., has agreed to establish Ubhar Capital "U-Capital", which is envisioned to become Oman's leading independent investment banking platform. Subject to necessary approvals, U-Capital will soon be acquiring Oman Arab Bank's investment banking business "OABINVEST", which has a long-standing track record in corporate finance, asset management, brokerage and a leading market share in Oman. With the support of our strategic partners and committed stakeholders, we are focused on building U-Capital into one of the largest and most valuable Omani Investment Company & Asset Manager – with regional capabilities and int'l reach.

Although the current business conditions are challenging, we are optimistic about OMINVEST's strong financial position and future prospects and remain highly supportive of the major initiatives that our management has undertaken. OMINVEST will continue to play a key role in Oman's economic growth; creating job opportunities for Omani nationals and helping businesses grow and attract investments to our country.

Acknowledgements

We would like to thank our shareholders and partners for their continued support and trust. We also take this opportunity to sincerely thank the leadership at the Capital Market Authority, Ministry of Commerce & Industry and Muscat Securities Market for their guidance and supportive measures to strengthen the financial markets in Oman.

The Board and entire OMINVEST Group is profoundly thankful to His Majesty Sultan Qaboos for his great vision and wise leadership for the steady growth & stability and enduring prosperity of our great country.

Khalid M Al Zubair
Chairman