

Corporate Governance Report

CORPORATE PHILOSOPHY

The corporate governance philosophy of the Company aims at corporate fairness, transparency and accountability at all levels through well laid down systems and procedures. The Board of National Finance Company SAOG firmly believes that the adopted corporate governance policies are aligned with the principles enshrined in the Code of Conduct and the Rules and Guidelines on Disclosure by Issuer of Securities and Insider Trading issued by Capital Market Authority in July 2007 with effect from October 1, 2007.

THE BOARD

Role and Function

The Board of Directors plays a central role within the business organization in developing the Company's strategic and organizational objectives as well as in ensuring the effectiveness of the internal controls.

Composition of the Board

The articles of association of the Company stipulate that the Board should consist of seven directors. The qualification requirement for each director is 20,000 shares in the Company. The members were last elected to the Board at the annual general meeting held on March 15, 2008 with three years tenor.

All the members have the requisite knowledge, varied background and rich experience in the field of financial services. All directors, including the Chairman, are non-executive and independent. Out of the seven directors, five are nominee directors representing institutional investors and two are elected in their individual capacities. None of the directors is a member of the Board of more than four public joint stock companies whose principal place of business is in the Sultanate of Oman, nor is a Chairman of more than two such companies.

Mr. Taya Bin Jandal Bin Ali is the Chairman and his roles are distinct and separate from that of the Chief Executive Officer. Mr. Aiman Abdelrahman Khair, Senior Manager - Legal is the Secretary to the Board.

Executive Management

The Chief Executive Officer (CEO) is responsible for the management of the Company. He is assisted by the General Manager (GM) and the Chief Financial Officer (CFO), the three forming the Management Committee of the Company. The GM reports to the CEO and is responsible for the Sales and Credit, Human Resources & Administration, Legal (in respect of non-collection matters), Information

Technology and Customer & Public Relations departments. The CFO, who also reports to the CEO, is responsible for the Recoveries & Remedial Credit, Finance and Legal (in respect of collection matters) Departments.

Board Meetings

During the year 2008, eleven board meetings were held as listed below:

Meeting No.	Board Meeting Dates
1/2008	January 29, 2008
2/2008	March 1, 2008
3/2008	March 15, 2008
4/2008	April 19, 2008
5/2008	May 5, 2008
6/2008	May 26, 2008
7/2008	June 24, 2008
8/2008	July 9, 2008
9/2008	October 12, 2008
10/2008	October 29, 2008
11/2008	December 17, 2008

The maximum interval between any two meetings was 95 days which is within the stipulated maximum of 120 days as per Article 4 of the Code of Corporate Governance. The quorum for the meeting of the Board of Directors is a minimum of half of its members present or represented. Details of the members, the institutions they represent and the membership in the board of other SAOG companies are disclosed in Table 1.

Brief profile of directors

Mr. Taya Jandal Ali, a Diploma graduate of the Faculty of Extra Mural Studies, Cambridge University, has been the Chairman of the Board since 1992 and Chairman of the Executive Committee since 2000. He is currently also a Director on the Board of the Fund for Development of Youth Projects SAOC and a Director in Oman International Development and Investment Co. SAOG (OMINVEST).

During his services with the Government as the Under Secretary to the Advisor of His Majesty the Sultan for Economic Planning Affairs, Mr. Taya Jandal has participated in various Arab League and UN conferences and Gulf Co-operation Council Summit meetings.

Mr. Hani Muhammad Al Zubair has been the Deputy Chairman since 1997. A graduate of Richmond University, UK with Bachelors Degrees in Mathematical Science and Computer Science, is the Director of The Zubair Corporation, one of the leading private sector groups in the Sultanate of Oman with diverse business interests. He has extensive knowledge and experience in financial, investment and

business management areas. He also holds the positions of Chairman in Oman International Development and Investment Company SAOG (OMINVEST) and Fund for Development of Youth Projects SAOC and as a Director on the Board of Oman Arab Bank SAOC.

Mr. Hani Al Zubair was nominated by the Government to represent the Private Sector on the Boards of Government-owned hotels and held the position for 5 years. He also represented Oman Chamber of Commerce & Industry as a member of the team for meetings of the Indian Ocean Rim – Association for Regional Cooperation. He is presently a member of the Regional Board of the Young Arab Leaders.

Mr. Ahmed Said Zaki has been a Director since 1995, member of the Executive Committee since 2000 and Chairman of the Audit Committee since 2003. He holds a Bachelor's degree in Commerce and a Diploma in Management. He has more than 34 years of experience in banking, finance and investment.

Since 1995, Mr. Zaki has been employed by OMINVEST where he currently holds the position of Company Secretary and Compliance Officer. He represents Oman Investment Services, a wholly owned subsidiary of OMINVEST, on the Board of National Finance. Mr. Zaki also represents OMINVEST on the Board of Oman Arab Bank SAOC. Previously, he worked for The Zubair Corporation LLC (TZC) for 11 years in senior management positions and represented TZC as a Director on the Boards of several public and private companies in Oman.

Mr. Ziyad Muhammad Al Zubair has been a Director since 1997. A graduate of the University of Arizona, he is a Director of The Zubair Corporation, one of the leading private sector groups in the Sultanate of Oman. He has been closely associated with the Furnishing, Real Estate and Tourism Divisions of The Zubair Corporation.

He successfully fulfilled the role of the Client's Representative in the prestigious Barr Al Jissah Resort Project, and is presently a Director on the Board of Barr Al Jissah Resort SAOC.

He is also a director on the boards of several private companies.

Mr. Asim Al Ghailani has been appointed as director in October 2008 after resignation of Mr. Hamood Al Aرامي. He represents Al Thurya For Investment LLC on the Board of National Finance. He holds a Degree in Finance. He has over a decade of experience in the field of Investments and Management. He also holds the position of Director on the boards of Omani Packaging Co. SAOG and National Securities Co. SAOG.

Mr. K. Balaji has been a Director since 2002 and Member of the Executive Committee since 2002. He is a Chartered Accountant from the Institute of Chartered Accountants of India.

He has experience of 21 years in the field of Finance and Management. He is working in a senior management role in the area of Finance for the last 15 years with Zubair Automotive LLC.

Mr. Pramod G. Karajgikar has been a Director since 2002 and Member of the Audit Committee since 2003. He is a Chartered Accountant (from the Institute of Chartered Accountants of India), Cost Accountant (from the Institute of Cost and Works Accountants of India) and Company Secretary (from the Institute of Company Secretaries of India).

He has experience of more than 30 years in the field of Finance and Management. He has been in Oman since February 1985 in the field of Finance with Waleed Associates LLC (an Omar Zawawi Est. Group Company)

Brief profile of senior management

Mr. Robert Pancras, Chief Executive Officer is an MBA from the Indian Institute of Management, Bangalore who joined the Company in May 2005. He has over 18 years of experience in banking and financial services, including a decade of experience in the area of Asset Finance in India, Australia and Oman. He was employed by CitiBank and ANZ Banking Group (Grindlays Bank) in the five years prior to his move to Muscat to head National Finance.

Mr. Ali Abdullah Saleh Al Tamimi, General Manager started his career as a banker with British Bank of Middle East. He is a former Chairman of Oman Refinery Company and has been on the Board of Oman Arab Bank, PDO, Oman Oil, Oman LNG, Oman Mining and Occidental during his tenure in the Government. He was deeply involved in policy making in the Ministry of Petroleum and Minerals and occupied special grade allocated for Under Secretary. Mr. Tamimi joined the Company in 1999 and possesses rich experience in general administration, policy formulation and finance.

Mr. R. Ravindran – Chief Financial Officer, joined the Company in 2002. A Chartered Accountant from India, he has over 28 years of experience in heading finance functions in reputed companies in the Sultanate. He earlier represented Al Hilal Investments as a Director on the Board of NFC.

BOARD SUB-COMMITTEES

Executive Committee

The Executive Committee comprises of 3 Directors and is headed by the Company's Chairman, Mr. Taya Bin Jandal Bin Ali. The other members of the Executive Committee are Mr. Ahmed Said Zaki and Mr. K. Balaji.

The Executive Committee facilitates the smooth functioning of the company by approving bank borrowings, credit limits, compensation matters, etc. as per the

authorities delegated to it by the Board of Directors. The Executive Committee also reviews and recommends to the Board of Directors the annual budget of the Company and strategic plans and monitors the ongoing performance of the Company. During the year 2008, the Executive Committee met 3 times and considered matters requiring urgent decision by circulation. The quorum for the committee is at least two members.

Audit Committee

The Audit Committee consists of three independent members, all being non-executive directors nominated by the Board. The Committee was last reconstituted on March 15, 2008. The current Committee is headed by Mr. Ahmed Said Zaki. The other two members of the Audit Committee are Mr. Pramod G. Karajgikar and Mr. Asim Salim Ali Al Ghailani. The Audit Committee assists the Board in fulfilling its oversight responsibilities. The Audit Committee reviews the financial reporting process, the system of internal control, management of financial risks and the Company's process for monitoring compliance with laws and regulations and the functions of the compliance committee and adhering to its own Manual of Authority and Procedures and co-ordinates the audit process.

During the year 2008, the Audit Committee met five times, viz. on 26th January, 15th April, 9th July, 21st July and 26th October. Attendance of the Members during these meetings is shown in Table 1. The discussions held in the meetings of the Audit Committee are minuted and reviewed by the Board of Directors. The quorum for the committee is at least two members.

Compliance Committee

The Company established a Compliance Committee as per the regulatory requirement of the Central Bank of Oman. The compliance committee reports to the Audit Committee. The members of the Compliance Committee comprise the Chief Executive Officer, General Manager, Chief Financial Officer and the Compliance Officer. The Compliance Committee has established Key Performance Indicators (KPI's) to fulfill their functions and monitor the same.

INTERNAL CONTROL

The internal control system encompassing the entire gamut of the financial, operational and risk management functions of the Company are periodically reviewed by the Audit Committee and the Executive Committee set up by the Board of Directors.

The Company had set up an in-house internal audit department as per the regulatory requirements of the CMA. The in-house Internal Auditor resigned from the Company during 2008. Pending recruitment of a suitable replacement, the Company has outsourced the internal audit services to Horwath Mak Ghazali LLC who currently performs this function.

The functions of the internal audit department are overseen by the Audit Committee. The internal audit reports are reviewed by the Audit Committee and the findings are placed before the Board of Directors, where necessary. The Company has adequate and effective internal controls in place, which are regularly reviewed and modified as and when the business processes undergo a change.

During the year 2008, four internal audit reports were submitted and the management has initiated appropriate action on the recommendations of the internal audit department.

Related Party Disclosure

Details of all commercial and financial transactions where Directors have potential interest are provided to the Board at quarterly intervals. All related party transactions have been effected on arms length basis without any preferential advantage accruing to any related party concerned.

REMUNERATION

Members of the Board

The Chairman and other members of the Board are entitled for sitting fees of RO 300 and RO 200 per meeting, respectively. During the year 2008, the Directors were paid sitting fees for the board meetings, executive committee meetings and audit committee meetings, details of which are provided in Table 1.

The company has provided an amount of RO 50,000 (RO 31,000 in 2007) during the year on account of Directors' remuneration which will be paid in 2009 if approved by the shareholders at the annual general meeting.

Top Five Officials of the Company

The top five managerial executives of the Company are employed through service contracts and the contracts are open ended, which can be terminated by the Company or the executive by giving a notice of three months. The gross remuneration paid to the top 5 Officials of the Company amounted to RO 307 K which includes all allowances, travel and transport expenses, perquisites and bonus.

SHAREHOLDERS

Channels of Contact with Shareholders and investors

The quarterly financials of the Company are available in digital form at the website of Muscat Securities Market (MSM) viz., www.msm.gov.om. The quarterly, half yearly and annual results of the Company are published in two national dailies, one in

English and one in Arabic. The financials of the Company are also available at the website of the Company which is: www.natfinco.com

The audited financial statements and other reports of the Company for the year ended 31 December 2008 will be discussed in the Shareholders' meeting scheduled to be held on 12 March 2009.

After completion of the statutory audit, the annual report and financial statements (including the Board of Directors Report, Corporate Governance Report and the Management Discussion and Analysis) are sent by Registered Post to all the shareholders along with the invitation to the Annual General Meeting.

Distribution of share holding

The following institutions hold more than 5% of the Company's shares:

Name	Number of shares	% of holding
Al Hilal Investment Co LLC	45,155,153	39.387
Oman Intl. Development & Investment Co. SAOG	27,214,501	23.738

The remaining shareholding pattern as at 31 December 2008 was as follows:

Category	No. of shareholders	Number of shares	% of holding
0-30,000	37	279,536	0.244
30,001 - 60,000	5	232,543	0.203
60,001 - 90,000	0	0	0
90,001 - 120,000	0	0	0
120,001 - 150,000	1	125,000	0.109
Over 150,001	23	41,638,438	36.319
Total	66	42,275,517	36.875

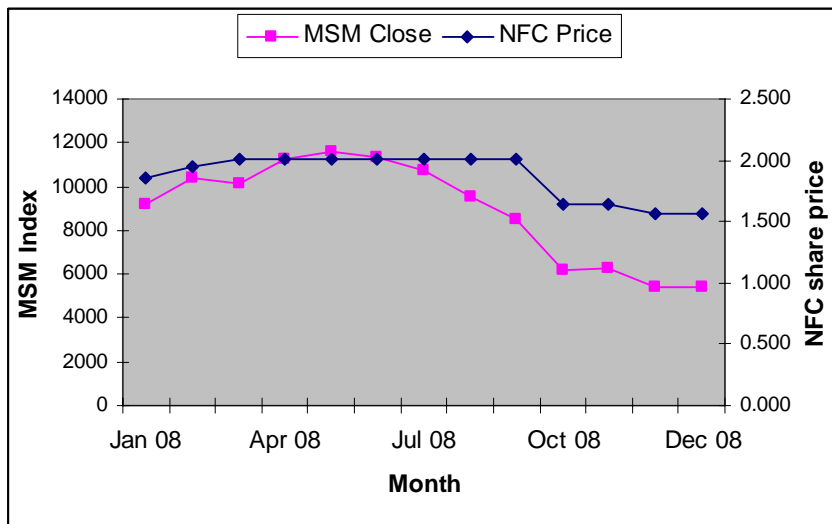
Statement on Market Price:

The Company's shares are listed in the Muscat Securities Market, but are thinly traded. The closing share price as at 31 December 2008 was RO 0.156* per share. The market price quotes for the traded shares during 2008 were as follows. The company made a rights issue of 24,082,671 shares in December 2008.

Month	High	Low	Close	Traded Volume	Value RO
August	-	-	2.016	-	-
September	-	-	2.016	-	-
October	1.815	1.634	1.634	2,710	4,790
November	-	-	1.634	-	-
January	1.850	1.800	1.850	4,500	8,163
December	1.850	1.950	0.156*	-	-
February	1.850	1.950	1.950	2,355	4,557
March	1.949	2.275	2.016	433,547	935,646
April	-	-	2.016	-	-
May	-	-	2.016	-	-
June	-	-	2.016	-	-
July	2.016	2.016	2.016	1,000	2,016

* In December 2008, Company's shares were sub-divided from RO 1.000 (Omani Rial One) to 100 baizas per share.

Performance of the company in comparison with MSM index for Banking & Investment companies -



STATUTORY AUDITORS

The shareholders of the Company have appointed M/s. KPMG as the Auditors for the year 2008. KPMG is one of the world's largest professional service organisation, providing industry-focused assurance, tax and advisory services for public and private clients. Within the firm, more than 100,000 people in 150 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

KPMG is one of the leading accredited accounting firms in Oman and has three partners and over one hundred employees. KPMG has many years of experience in the Middle East and South Asia, and its network entities employ almost 4,000 people in fifteen countries in the region. They have a reputation for providing quality professional services to a well-diversified client portfolio, both in the public and private sectors.

The audit fees and fees for other services provided for KPMG during the year totalled to RO 10,150.

DETAILS OF NON-COMPLIANCE

The Company had one instance of non-compliance during the year 2006 of a circular related to policy formulation issued by the Central Bank of Oman. The Company was levied a penalty of RO 2500 and this was reported by the Company in the Annual

Report for the year 2006. The situation was partly corrected but the Company was not compliant in 2007 with this circular, no penalty was levied during this year. The company was compliant relating to policy formulation during the year 2008 and there was no other instance of non-compliance and penalty during the year 2008.

There was no other instance of non compliance on any matter relating to the Commercial Companies Law of Oman, Capital Market Authority's (CMA's) Code of Conduct on Corporate Governance for MSM listed companies, CMA Regulations or the MSM listing agreements in the past three years.

ACKNOWLEDGMENT

The Board of Directors confirms its liability in respect of preparation of the financial statement in accordance with the applicable rules and standards. The Board also confirms that it has reviewed the efficiency and adequacy of internal control systems of the Company and confirms that they comply with international rules and regulations. Further, the Board confirms that there are no material items that affect the continuation of the Company and its ability to continue its operations during the next financial year.

Taya Bin Jandal Bin Ali
Chairman

Table 1

Name of the Director	Institution represented	Whether attended last AGM held on March 15, 2008	No. of meetings attended			Directorship in other SAOG Companies	Sitting Fees paid to each Director during 2008 RO	Directors Remuneration paid to each Director during 2008 RO
			Board	Executive Committee	Audit Committee			
Taya bin Jandal bin Ali	Muscat Trading Company LLC	Yes	10	3	-	1	3,900	7,750
Hani bin M. Al Zubair	Himself	No	9	-	-	1	1,900	3,875
Ahmed Said Zaki	Oman Investment Services Co. SAOC	Yes	11	2	5	-	4,100	3,875
Ziyad bin M. Al Zubair	Himself	No	6	-	-	-	1,200	3,875
Hamood Al Araiimi**	Al Thurya Investment Co. LLC	Yes	7	-	4	-	2,200	3,875
K. Balaji	Al Hilal Investment Co. LLC	Yes	11	3	-	-	2,800	3,875
Pramod G. Karajgikar	Muscat Contract Cleaning & Maintenance LLC	Yes	11	-	5	-	3,200	3,875
Asim Salim Ali Al Ghailani**	Al Thurya Investment Co. LLC	-	1	-	-	2	200	-
Total							19,500	31,000

Note: **Mr. Asim Salim Ali Al Ghailani has been appointed as the Director consequent to the resignation of Mr. Hamood Al Araiimi