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**Report to the Shareholders of National Finance Company SAOG ("the Company") of Factual Findings in Connection with Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with the Capital Market Authority Code of Corporate Governance**

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007. The Report is set out on pages 1 to 10.

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the Procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Company's annual report for the year ended 31 December 2010 and does not extend to the financial statements or any other reports of the Company, taken as a whole.

*Michael G.W. Armstrong*

26 January 2011

## ***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 Co. 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 200,000 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) and Information Technology departments. The CFO, who also reports to the CEO, is responsible for

the Finance, Recoveries & Remedial Credit and Legal (in respect of collection matters) Departments.

### **Board Meetings**

During the year 2010, five board meetings were held as listed below:

<b>Meeting No.</b>	<b>Board Meeting Dates</b>
1/2010	26 January 2010
2/2010	26 April 2010
3/2010	28 July 2010
4/2010	27 October 2010
5/2010	15 December 2010

The maximum interval between any two meetings was 93 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 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, he is a Director of The Zubair Holding LLC, one of the leading private sector groups in the Sultanate of Oman with diverse business interests, and Chairman of Zubair Automotive Group. 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. Ahmed Said Zaki** has been a Director since 1995, member of the Executive Committee since 2000 and Chairman of the Audit and Risk Management Committee since 2003. He holds a Bachelor's degree in Commerce and a Diploma in

Management. He has more than 35 years of experience in banking, finance and investment.

Since 1995, Mr. Zaki has been employed by OMINVEST where he currently holds the position of Chief Compliance Officer. He represents Oman Investment Services, a wholly owned subsidiary of OMINVEST, on the Board of National Finance. Mr. Zaki is also a member of the Board of Directors 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. Pramod G. Karajgikar** has been a Director since 2002 and Member of the Audit and Risk Management 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)

**Dr. Hamed Hashim Mohammed Al Dhahab** has been appointed as Director and member of the Audit and Risk Management Committee in July 2009 after the resignation of Mr. Asim Salim Ali Al Ghailani. He represents Al Thurya For Investment LLC on the Board of National Finance.

Dr. Dhahab holds a Master Degree in Mechanical Engineering from Friendship University; Russia, A Master of Science of Industrial Engineering from Arizona University; USA and a PhD in Industrial Engineering from Management of Technology, Cranfield University, UK. Over the last 14 years, he has occupied senior positions in the Government and has been the Chief Executive Officer for Oman Poly Propylene since 2006. In addition to this role, Dr. Dhahab has served several organizations in senior Board level roles and is currently a Director on the Boards of Galfar Engineering and Contracting SAOG and Majan Electricity Company SAOC

**Mr. C.S. Badrinath** has been a Director and member of the Executive Committee since September 2009. He represents Al Hilal Investment Co. LLC on the Board of National Finance.

Mr. Badrinath is a Chartered Accountant by profession and is an Associate Member of the Institute of Chartered Accountants of India. He is also an Associate Member of the Institute of Cost & Works Accountants of India.

Mr. Badrinath has been with the Zubair Group for the last 29 years in different finance functions and is presently the Acting Chief Executive Officer of The Zubair Corporation Group. Mr. Badrinath is a member of all the monitoring and executive committees and shareholders' forums of the Zubair Group companies. Mr. Badrinath represents the Zubair Group as a Director in several public limited companies.

### **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 20 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 30 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 National Finance.

### **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. C.S. Badrinath.

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 2010, the Executive Committee met one time and considered matters requiring urgent decision by circulation. The quorum for the committee is at least two members.

### **Audit and Risk Management Committee**

The Audit and Risk Management Committee consists of three independent members, all being non-executive directors nominated by the Board. The current Committee is headed by Mr. Ahmed Said Zaki. The other two members of the Audit and Risk Management Committee are Mr. Pramod G. Karajgikar and Dr. Hamed Hashim Mohammed Al Dhahab. The Audit and Risk Management Committee assists the Board in fulfilling its oversight responsibilities. The Audit and Risk Management Committee reviews the financial reporting process, the system of internal control, management of overall risks, company's process for monitoring compliance with laws and regulations, adhering to its own Manual of Authority and Procedures and co-ordinates the audit process.

During the year 2010, the Audit and Risk Management Committee met five times, viz. on 24<sup>th</sup> January, 22<sup>nd</sup> March, 21<sup>st</sup> April, 26<sup>th</sup> July and 21<sup>st</sup> October. Attendance of the Members during these meetings is shown in Table 1. The discussions held in the meetings of the Audit and Risk Management Committee are minuted and reviewed by the Board of Directors. The quorum for the committee is at least two members.

### **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 and Risk Management Committee and the Executive Committee set up by the Board of Directors.

The Company has set up an in-house internal audit department as per the regulatory requirements of the CMA. The functions of the internal audit department are overseen by the Audit and Risk Management Committee. The internal audit reports are reviewed by the Audit and Risk Management Committee and the findings are placed before the Board of Directors. 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 2010, all the activities of the company were reviewed by the internal audit. 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 Rials 300 and Rials 200 per meeting, respectively. During the year 2010, the Directors were paid sitting fees for the Board meetings, Executive Committee meetings and Audit and Risk Management Committee meetings, details of which are provided in Table 1.

The company has provided an amount of Rials 57,000 (Rials 60,000 paid in 2010 for 2009 remuneration) during the year on account of Directors' remuneration which will be paid in 2011 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 Rials 370K 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](http://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](http://www.natfinco.com)

The audited financial statements and other reports of the Company for the year ended 31 December 2010 will be discussed in the Shareholders' meeting scheduled to be held on 8 March 2011.

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:

<b>Name</b>	<b>Number of shares</b>	<b>% of holding</b>
Al Hilal Investment Company LLC	59,604,800	39.387
Oman International Development Investment Co. SAOG	35,923,141	23.738

The remaining shareholding pattern as at 31 December 2010 was as follows:

<b>Category</b>	<b>No. of shareholders</b>	<b>Number of shares</b>	<b>% of holding</b>
0-30,000	68	528,440	0.349
30,001 - 60,000	7	302,776	0.200
60,001 - 90,000	4	276,777	0.183
90,001 - 120,000	0	0	0
120,001 - 150,000	2	261,060	0.173
Over 150,001	28	54,434,632	35.970
<b>Total</b>	<b>109</b>	<b>55,803,685</b>	<b>36.875</b>

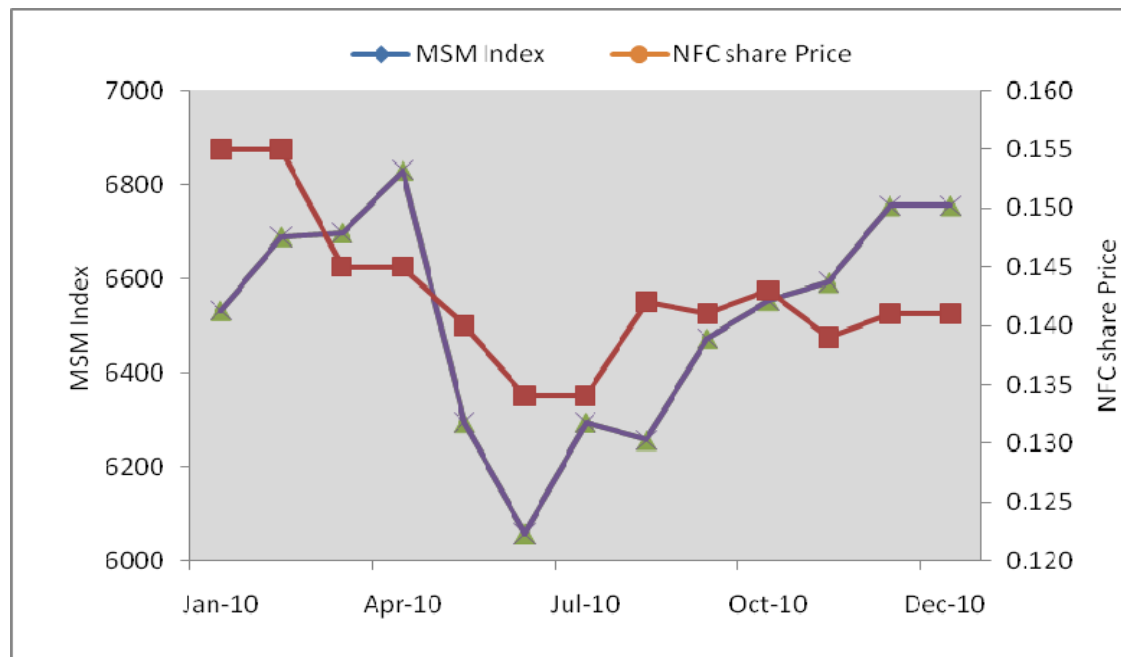
### **Statement on Market Price**

The Company's shares are listed in the Muscat Securities Market. The closing share price as at 31 December 2010 was Rials 0.141 per share. The market price quotes for the traded shares during 2010 were as follows.

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Close</b>	<b>Traded Volume</b>	<b>Value Rials</b>
January	0.170	0.155	0.155	26,500	4,130
February	0.160	0.160	0.155	1,500	240
March	0.160	0.132	0.145	75,950	11,731
April	0.145	0.145	0.145	100	14
May	0.153	0.125	0.140	3,196,506	464,514
June	0.148	0.130	0.134	516,850	71,984
July	0.136	0.125	0.134	95,110	12,604
August	0.142	0.135	0.142	176,710	24,689
September	0.147	0.138	0.141	141,100	20,007
October	0.143	0.143	0.143	30,000	4,290
November	0.143	0.129	0.139	57,000	7923
December	0.141	0.126	0.141	50,900	6,674



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



## STATUTORY AUDITORS

The shareholders of the Company have appointed KPMG as the auditors for the year 2010. KPMG is one of the leading accounting firms in Oman. The Oman practice of KPMG, which forms part of KPMG Lower Gulf, was established in 1974 and employs more than 130 people, including 3 partners, 6 directors and 17 managers. KPMG Lower Gulf (UAE and Oman), is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative. The KPMG network operates in 146 countries and employs 140,000 people worldwide. KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's).

During the year 2010, professional fees for audit in the amount of RO 13,425 were rendered by the external auditors in respect of the services provided by them to the organization.

## DETAILS OF NON-COMPLIANCE

There was one instance of non-compliance of a circular issued by the Central Bank of Oman related to the role of the compliance function. The Company was levied a penalty of Rials 2,500 for this non-compliance. The Company has already taken corrective steps for compliance and is committed to full compliance of laws, rules and regulations at all times.

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 during the year 2010.

## **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 9, 2010	No. of meetings attended			Directorship in other SAOG Companies	Sitting Fees paid to each Director during 2010 Rials	Directors Remuneration paid to each Director during 2010 Rials
			Board	Executive Committee	Audit and Risk Management Committee			
Taya bin Jandal bin Ali	Muscat Trading Company LLC	Yes	5	1	-	1	1,800	15,000
Hani Al Zubair	Himself	Yes	3	-	-	1	600	7,500
Ahmed Said Zaki	Oman Investment Services Co. SAOC	Yes	4	1	5	-	2,500	7,500
Ziyad Al Zubair	Himself	Yes	4	-	-	-	800	7,500
Pramod G. Karajgikar	Muscat Contract Cleaning & Maintenance LLC	Yes	5	-	5	-	2,000	7,500
Dr. Hamed Hashim Mohammed Al Dhahab	Al Thurya Investment Co. LLC	Yes	3	-	5	-	1,600	7,500
C.S. Badrinath	Al Hilal Investment Co. LLC	Yes	5	1	-	2	1,200	7,500
<b>Total</b>							<b>10,500</b>	<b>60,000</b>