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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 2011 and does not extend to the financial statements or any other reports of the National Finance Company SAOG, taken as a whole.

Paul Callaghan

28 January 2012

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 Corporate Governance and the provisions of the Executive Regulations of the Capital Market Law, dealing with disclosures to be made by issuers of securities and insider trading.

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, 2011 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, four are nominee directors representing institutional investors and three 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. R. Panneerselvam 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 and Information Technology departments. The CFO, who also reports to the CEO, is responsible for the Finance and Recoveries & Remedial Credit Departments.

Board Meetings

During the year 2011, six board meetings were held as listed below:

Meeting No.	Board Meeting Dates
1/2011	January 26, 2011
2/2011	March 8, 2011
3/2011	April 19, 2011
4/2011	August 10, 2011
5/2011	October 26, 2011
6/2011	December 10, 2011

The maximum interval between any two meetings was 113 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 also holds the position of Deputy Chairman in Oman International Development and Investment Company SAOG (OMINVEST).

Prior to this, Mr. Taya Jandal served the Government as the Under Secretary to the Advisor of His Majesty the Sultan for Economic Planning Affairs.

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 the position of 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 37 years of experience in banking, finance and investment.

Since 1995, Mr. Said 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 Holding LLC, one of the leading private sector groups in the Sultanate of Oman with diverse business interests, and a Director of The Zubair Corporation. 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 currently also a Director on the Board of Oman International Development and Investment Co. SAOG (OMINVEST). 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)

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 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.

Mr. Francis Pinto has been appointed as Director and member of the Audit and Risk Management Committee in April 2011. He represents Al Thurya For Investments LLC on the Board of National Finance. In the election held on March 8, 2011, Al Thurya For Investments LLC has nominated Mr. Francis Pinto in the place of Dr.Hamed Hashim Mohammed Al Dhahab.

Mr. Pinto is a Chartered Certified Accountant and Fellow Member of the ACCA, UK and Chartered Management Accountant and an Associate Member of CIMA, UK.

He has experience of more than 20 years in the field of Accounts, Finance and Audit. He is currently working as Sr. Manager – Finance with Galfar Group Chairman's Office since 2005.

Mr. Pinto represents the Galfar Group Chairman and his investment companies as Director in several private limited and listed companies.

Brief profile of senior management

Mr. Robert Pancras, Chief Executive Officer 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. Pancras holds a Masters in Business Administration (PGDM) from Indian Institute of Management, Bangalore and a Bachelor of Engineering degree from College of Engineering, Madras.

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 2011, the Executive Committee met four times 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 Mr. Francis Pinto. 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 2011, the Audit and Risk Management Committee met five times, viz. on 24th January, 17th April, 20th July, 7th September and 24th 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 2011, 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 2011, 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 100,000 (Rials 57,000 paid in 2011 for 2010 remuneration) during the year on account of Directors' remuneration which will be paid in 2012 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 411K 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.nationalfinance.co.om

The audited financial statements and other reports of the Company for the year ended 31 December 2011 will be discussed in the Shareholders' meeting scheduled to be held in March 2012.

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 Company LLC	69,141,567	39.387
Oman International Development Investment Co. SAOG	41,670,843	23.738

The remaining shareholding pattern as at 31 December 2011 was as follows:

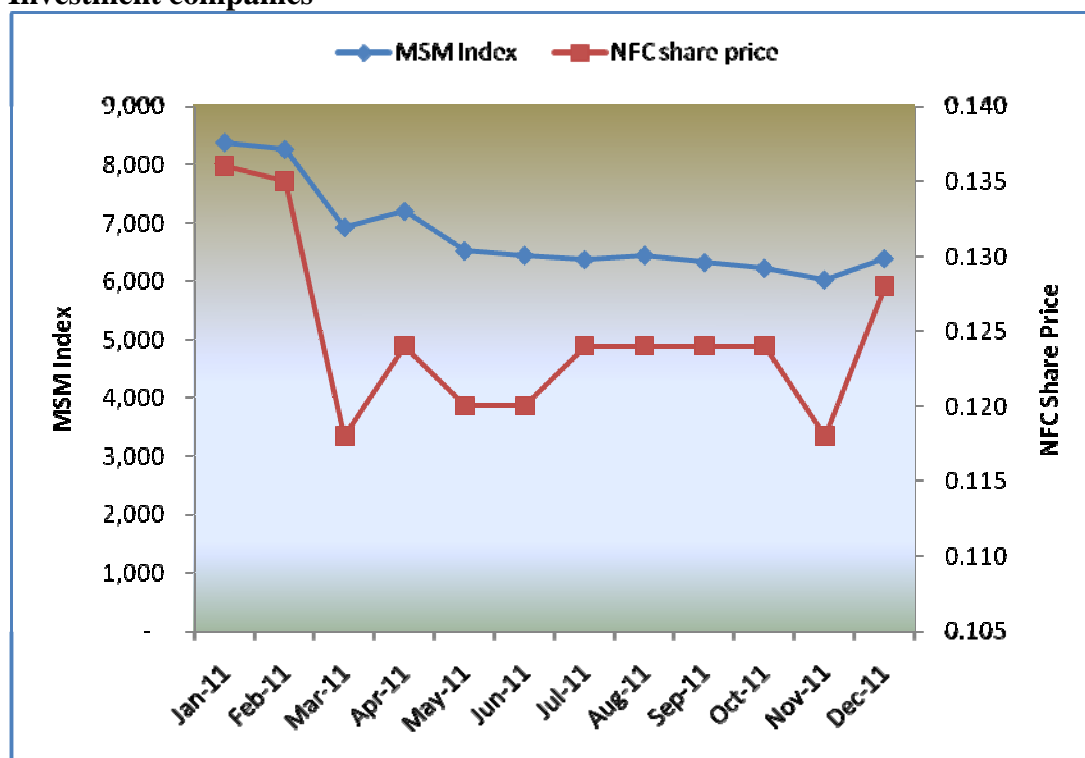
Category	No. of shareholders	Number of shares	% of holding
0-30,000	58	432,302	0.246
30,001 - 60,000	10	429,010	0.244
60,001 - 90,000	4	294,294	0.168
90,001 - 120,000	1	114,357	0.065
120,001 - 150,000	2	286,240	0.163
Over 150,001	28	63,176,073	35.989
Total	103	64,732,276	36.875

Statement on Market Price

The Company's shares are listed in the Muscat Securities Market. The closing share price as at 31 December 2011 was Rials 0.128 per share. The market price quotes for the traded shares during 2011 were as follows.

Month	High	Low	Close	Traded Volume	Value Rials
January	0.140	0.135	0.136	78,128	10,818
February	0.140	0.131	0.135	65,700	8,932
March	0.128	0.116	0.118	180,400	21,189
April	0.125	0.110	0.124	102,036	12,551
May	0.122	0.112	0.120	41,770	4,986
June	0.120	0.114	0.120	3,064	357
July	0.131	0.110	0.124	68,434	8,400
August	0.124	0.124	0.124	6,000	744
September	0.120	0.118	0.124	5,800	688
October	0.124	0.124	0.124	25,000	3,100
November	0.120	0.118	0.118	40,000	4,755
December	0.135	0.120	0.128	207,774	26,528

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 2011. 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 4 partners, 5 directors and 19 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 150 countries and employs 138,000 people worldwide. KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's).

During the year 2011, professional fees in the amount of Rials 13,888 were rendered by the external auditors in respect of the services provided by them to the organization including their accountants report on the Company's Corporate Governance Report. This being their fourth year, KPMG are not eligible for reappointment in 2012. The Board wishes to thank KPMG on behalf of the shareholders, for their services over the last four years.

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 each for this non-compliance in 2010 and 2011. 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 2011.

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 internal 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 8, 2011	No. of meetings attended			Director-ship in other SAOG Companies	Sitting Fees paid to each Director during 2011 Rials	Directors Remuneration paid to each Director during 2011 Rials
			Board	Executive Committee	Audit and Risk Management Committee			
Taya bin Jandal bin Ali	Himself	Yes	5	4	-	1	2,700	14,125.000
Hani Al Zubair	Himself	Yes	4	-	-	1	900	7,062.500
Ahmed Said Zaki	Oman Investment Services Co. SAOC	Yes	6	4	5	-	3,500	7,062.500
Ziyad Al Zubair	Himself	No	3	-	-	1	600	7,062.500
Pramod G. Karajgikar	Muscat Contract Cleaning & Maintenance LLC	Yes	4	-	4	-	1,600	7,062.500
Mr. C.S. Badrinath	Al Hilal Investment Co. LLC	No	5	3	-	2	1,600	7,062.500
Dr. Hamed Hashim Mohammed Al Dhahab*	Al Thurya For Investments LLC	No	-	-	-	-	-	7,062.500
Mr. Francis Pinto*	Al Thurya For Investments LLC	-	4		4	-	1,600	-
Total							12,500	56,500.000

Note: * Al Thurya For Investments LLC has nominated Mr. Francis Pinto as their representative in the election held on March 8, 2011