

Directors' Report

On behalf of the Board of Directors, I take pleasure in placing before you the results of the Company for the year ended 31 December 2016.

Economic environment and outlook

The local economic environment has seen some softening as a result of sustained lower oil prices. While confidence in the local financial system remained comfortable, we have witnessed some tightening of liquidity and the resultant increase in borrowing rates. Tighter liquidity combined with declining project investment will result in a more difficult economic environment going forward. Over the medium term, while still having substantial reliance on oil revenues, the fundamental positive aspects of a young population, improving inflation, education and geographical location of Oman will enable growth of economy through non-oil segments. We expect continued growth during this transformation which will last several years.

The Government of Oman is taking steps to proactively manage the impact of reduced oil prices through tightening of subsidies, prioritizing of investment in socio-economic relevant infrastructure projects and focusing on generating non-oil revenues.

The country's total estimated revenues for 2017 is expected to be around OMR 8.7 billion which is around 18% higher than the 2016 expected revenues. The overall budget deficit in 2017 is estimated at OMR 3 billion which is 43% less than the expected deficit of 2016. With a decrease in new Government projects combined with the stretched payment cycle, we anticipate a reduced credit offtake in the medium term and overall, our reading is that the economic climate is challenging with a need to balance positive market growth against increased competition and credit stress.

Operating performance

The company has adopted a prudent approach to credit approvals as a result of our perception of heightened credit risk since the onset of the global financial crisis. Within this overall conservative credit strategy, the company has been expanding its branch network to enable access to more customers which meet our credit profile. Net finance assets have grown 3.79% during the year to reach Rials 192.53 million from Rials 185.55 million as on 31 December 2015.

Your company continues to follow a prudent provisioning policy based on its assessment of the risks inherent to its portfolio and is in full compliance with provisioning norms prescribed by the Central Bank of Oman and the International Financial Reporting Standards. The company added credit provisions of Rials 1.51 million this year (Rials 1.68 million last year).

Overall, the Company achieved a net profit of Rials 6.35 million for the year ended 31 December 2016 (Rials 6.02 million in 2015), an increase of 5.45%.

While the low global and regional growth forecast for the medium term combined with the sustained drop in oil prices is expected to create stress on the liquidity and

funding costs, the company is well positioned to deal with the changing business environment as a result of its strong financial position, well established processes, well trained personnel and long experience in this business.

Management Discussion and Analysis Report

The Management Discussion & Analysis Report which forms a part of this annual report provides more detailed insight into the financial statements and operations of the company for the year 2016.

Proposed Change in the Company's structure

The Board of Directors of the Company in its meeting held on 26th October, 2016 had discussed the possibility of a merger between National Finance and Oman Orix Leasing Company SAOG. This will be subject to approval by the shareholders of both the companies and the regulatory authority. The proposed merger is envisaged to be beneficial to shareholders as well as other stakeholders of both the companies. A merged company would have a higher market share, be able to compete more effectively in Oman and would also be in a better position to consider regional expansion.

Dividend Policy

The Company's dividend distribution policy aims at providing shareholders a reasonable return and to build reserves to achieve a strong capital base. Based on this, the Board recommends distribution of 14% dividend in cash and 3% stock dividend. This dividend will be paid on the shares outstanding on the record date.

The particulars of dividend distributed in the past 5 years including the dividend proposed for the year 2016 are as follows:

Amount in Rials million					
Years	2012	2013	2014	2015	2016
Cash dividend	10%	10%	10%	12%	14%
Stock dividend	Nil	2.5%	2.5%	3%	3%
Total	10%	12.5%	12.5%	15%	17%
Capital on which dividend paid	25.05	25.05	25.68	26.32	27.11

Corporate Governance

Your Company has been complying with all the requirements of the Code of Corporate Governance, as specified by the Capital Market Authority (CMA). A detailed report on Corporate Governance is set out along with a certificate from the Statutory Auditors in compliance with the CMA regulations.

Update on Corporate Social Responsibility activities

During the year, the company had donated Rials 10,000 each to Dar Al Atta and Oman Association for Hearing Impaired and Rials 5,000 each to Oman Bahjah Orphan Society, Oman Autism Society and Oman Charitable Organization out of the amount approved by the shareholders for distribution to charities.

Omanisation

Your company remains committed to Omanisation and as on 31st December 2016, the number of Omani staff was 130 out of the total staff strength of 159. The Omanisation percentage works out to 81.76% which is more than the prescribed target of 80%.

Acknowledgement

I am joined by all the members of the Board of Directors and the Management in expressing deep gratitude to His Majesty Sultan Qaboos Bin Said for his dynamic and progressive leadership. We also extend our sincere gratitude to the Central Bank of Oman, Capital Market Authority, Muscat Securities Market, our bankers, depositors, vehicle and equipment dealers, customers and shareholders for the support extended for the growth of the Company.

On behalf of the Board of Directors I also thank the management and staff for their dedication and hard work.

Taya Jandal Ali
Chairman

January 25, 2017