

## ***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 2017.

### ***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. Over the last two years, despite the challenges arising from lower oil prices, the national economy proved to be able to maintain positive growth rates.

The Government of Oman is taking steps to proactively manage the impact of reduced oil prices through adequate levels of public investment with the aim to enhance economic diversification, increase employment rates and strengthen social development to continue a growth trajectory of over 3% in year 2018. 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 the economy through non-oil segments.

Our Company has a well-diversified geographical spread inside Oman, coupled with a diversified product profile and we are well positioned to meet the financing requirements of both the Retail and SME segments. We anticipate a reasonable credit offtake in the medium term with a need to balance credit risk with positive market growth.

### ***Merger with Oman Orix Leasing Company SAOG***

Our Company is in an advanced stage in the acquisition process of Oman Orix Leasing Company SAOG (OOLC) through a merger by incorporation. The merged Company will emerge as the largest Finance and Leasing Company in Sultanate of Oman. The Company aims to raise RO 45.84 million through a combination of Perpetual Bonds of RO 18.20 million and Rights Issue of RO 27.64 million. We believe that the merger will enhance our market presence through increase in customer reach, service channels and enable rapid expansion through launch of new products.

Upon completion of the merger with Oman Orix Leasing Company, the Company's headcount will approximately double. It is expected that the process of streamlining and consolidation of operations will result in more people being redeployed from back end operations to customer facing areas. We expect that consolidation of systems and processes and adopting best practices across the merged company would result in a substantially improved customer experience, increased staff efficiency levels and higher speed of business operations.

### ***Operating performance***

The company has adopted a prudent approach to credit approvals over the past few years. Within this overall conservative credit strategy, the company has been expanding its branch network to enable access to more customers which meet the credit profile. Net finance assets have grown 4.20% during the year to reach Rials 200.54 million from Rials 192.53 million as on 31 December 2016.

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.

Overall, the Company achieved a net profit of Rials 7.02 million for the year ended 31 December 2017 (Rials 6.35 million in 2016), an increase of 10.57%.

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 2017.

### ***Dividend Policy***

The particulars of dividend distributed for the previous 5 years is given below:

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

Since the merger by incorporation of Oman Orix Leasing Company SAOG into National Finance is expected to take place during the first quarter of 2018, the Board recommends that no dividend be declared till such time that the merger is completed. Upon completion of the merger, the Board will review the situation and may decide to recommend a dividend out of retained earnings later during the year.

### ***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 CMA regulations.

### ***Update on Corporate Social Responsibility activities***

During the current year, the company has entered into a co-operation agreement with Fund for Development of Youth Projects (Sharakah) for conducting workshops in Financial Planning for the SME segment across Oman aiming at improving skill levels of existing and prospective SME entrepreneurs. Sharakah provides financial Support and Post-financial Support to SMEs. The Company will continue to explore avenues to assist the development of the SME sector.

National Finance joined hands with OMINVEST and Zubair SEC in their endeavor for empowering local businesses and creating opportunities for Omani nationals by offering competitive and convenient solutions to develop and grow their business. National Finance believes that such collaborations will scale up the success stories of start-ups and encourage a positive trend.

During the year, the company had donated Rials 10,000 each to Dar Al Atta and Oman Charitable Organization, Rials 5,000 to Oman Bahjah Orphan Society and RO 2,000 to Al Noor Association for the Blind out of the amount approved by the shareholders for distribution to charities.

#### ***Omanisation***

Your company remains committed to Omanisation and as on 31 December 2017, the number of Omani staff was 133 out of the total staff strength of 161. The Omanisation percentage works out to 82.61% 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**