

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 December 31, 2018.

Economic environment and outlook

In 2018 the Oman economy has seen some increase in the revenues mainly on account of increase in realized oil price. However, in the later part of 2018 the oil prices have remained volatile and we have witnessed some tightening of liquidity and the resultant increase in borrowing rates. Over the last three years, despite the challenges arising from lower oil prices, the national economy proved to be able to maintain positive growth. The Government of Oman expects similar growth trend to continue in 2019.

The Government of Oman is taking steps to improve the investment climate, promote public-private partnership and offer support to small and medium enterprises by assigning a share of government projects to such entities. Prudent fiscal management, economic diversification, increase employment rates and strengthen social development continues to be a priority while achieving GDP growth of 3% in 2019. 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 presence across Oman (20 branches), coupled with a diversified product profile and we are well positioned to meet the financing requirements of the Retail, Corporate 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

In view of the merger by incorporation of Oman Orix Leasing Company SAOG into National Finance Co. SAOG, the financial statements incorporate the financials of the merged entity effective January 1, 2018.

Operating performance

Your Company continues to adopt a balanced approach to credit approvals keeping in view the overall macroeconomic scenario. Within this policy, our approach has been to target customers who satisfy our credit risk appetite. We anticipate a cautious outlook to our credit off take in the medium term and overall, our reading is that the economic climate will continue to remain challenging.

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. Your Company added credit provisions of Rial 1.8 million for FY 2018. Net investment in financing activities was at Rial 419.64 million as on December 31, 2018. Overall, your Company's net profit after tax was Rial 12.02 million for the year ended December 31, 2018.

While the low global and regional growth forecast for the medium term is expected to create stress on the liquidity and funding costs, your 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.

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 12.5% dividend of which 8% will be in cash and 4.5% in stock. This dividend will be paid on the shares outstanding on the record date.

The particulars of dividend distributed in the past 5 years is given below:

Amount in Rials million

Years	2013	2014	2015	2016	2017*
Cash dividend	10%	10%	12%	14%	10%
Stock dividend	2.5%	2.5%	3%	3%	5%
Total	12.5%	12.5%	15%	17%	15%
Capital on which dividend paid	25.05	25.68	26.32	27.11	27.93

*In view of merger by way of incorporation with Oman Orix Leasing Company SAOG, the Company had not declared the dividend for the financial year 2017 and had agreed to review the situation post completion of the merger. The Company in December 2018 reviewed the situation and in the Ordinary General Meeting held on December 30, 2018 declared distribution of cash dividend of 10% and stock dividend of 5% on the paid up capital on December 2017.

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

In connection with the co-operation agreement with Fund for Development of Youth Projects (Sharakah), the company has conducted workshops in Financial Planning for the SME segment across Oman aiming at improving skill levels of existing and prospective SME entrepreneurs. The Company will continue to explore avenues to assist the development of the SME sector.

During the year, the company had donated a total amount of RO 76,500 out of the amount approved by the shareholders for distribution to charities, of which Rials 30,000 each to Dar Al Atta and Oman Charitable Organization, Rials 10,000 to Oman Bahjah Orphan Society, RO 5,000 to Al Noor Association for the Blind and RO 1,500 to Oman Association for Hearing Impaired were paid.

Omanisation

Your company remains committed to Omanisation and as on December 31, 2018, the number of Omani staff was 263 out of the total staff strength of 316. The Omanisation percentage works out to 83.2%, which is more than the prescribed target of 80%. Your Company continues to remain committed to providing increased exposure and training to Omani staff to prepare them to assume higher responsibilities.

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 regulators and all the stakeholders 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