

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 laid in the Code of Corporate Governance and the provisions of the Executive Regulation 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 play 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 nine directors. The Board currently consists of 9 directors, including the Chairman and Deputy Chairman. 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 29, 2017 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. Out of the nine Directors, seven are independent and two are non-independent as per the regulation. Five directors are nominee directors representing institutional investors and four directors 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.

The roles of the Chairman are distinct and separate from that of the Chief Executive Officer. The Secretary to the Board is Mr. R. Panneerselvam.

Executive Management

The Chief Executive Officer (CEO) is responsible for the management of the Company. CEO is assisted by the General Manager - Business and General Manager – Risk and Controls, all three are part of the Management Committee of the Company. Both the General Managers reports to the CEO. The General Manager - Business is responsible for the Retail Sales, COSME (Corporate & SME) Sales and Branches while the General Manager – Risk and Controls is responsible for Collection, Risk and Compliance. All the other departments viz. Human Resources & Administration, Finance and Information Technology directly reports to the CEO.

Board Meetings

During the year 2018, ten board meetings were held as listed below:

Meeting No.	Board Meeting Dates
1/2018	January 21, 2018
2/2018	March 18, 2018
3/2018	April 26, 2018
4/2018	June 3, 2018
5/2018	July 29, 2018
6/2018	September 25, 2018
7/2018	October 2, 2018
8/2018	October 14, 2018
9/2018	October 25, 2018
10/2018	December 20, 2018

The maximum interval between any two meetings was 58 days which is within the stipulated maximum of 120 days as per 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 was the Chairman of the Nomination, Remuneration and Executive Committee until October 2018. He is also a Director 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 Corporation LLC, one of the leading private sector groups in the Sultanate of Oman with diverse business interests. He has extensive knowledge and experience in financial, investment and business management areas. He also holds the position of Chairman in the Fund for Development of Youth Projects SAOC and the position of a Director on the Board of Oman Arab Bank SAOC.

Mr. Pramod G. Karajgikar has been a Director since 2002 and member of the Audit Committee since 2003. Since 2013, he is also the Chairman of the Audit and Risk Management Committee. 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 35 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. Francis Pinto has been a Director and member of the Audit Committee in April 2011. He represents Al Thurya For Investments LLC on the Board of National Finance. He is also a Director in Omani Packaging Co. SAOG.

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 Finance Controller with Salim International Investment Holding LLC since 2005.

Mr. K. Balaji has been a Director since 5th January 2013 and Member of the Nomination, Remuneration and Executive Committee. He represents Al Hilal Investments Co. LLC on the Board of National Finance. He had earlier represented Al Hilal Investments on the Board of National Finance from November 2002 to May 2009.

He is a Chartered Accountant and a Fellow Member of The Institute of Chartered Accountants of India.

He has experience of 28 years in the field of Finance and Management. He is currently working as General Manager - Group Finance in Zubair Automotive Group and has been associated with this organization for about 22 years.

Mr. AbdulAziz Mohammed Al Balushi has been a Director since March 2014. He is the Group CEO of Oman International Development and Investment Company SAOG (OMINVEST) since January 2014.

With experience of more than 34 years, AbdulAziz has extensive in-depth knowledge of global financial services industry. At OMINVEST, AbdulAziz was the key driver behind the merger of Ominvest and ONIC Holding, which has created the largest publicly listed investment company in Oman.

Before joining OMINVEST, AbdulAziz was the CEO of Ahlibank SAOG from 2007 to 2013 and was primarily responsible in converting a single product mortgage bank into a full-fledged commercial bank. During his tenure, Ahlibank won many prestigious awards including; the best bank of Oman for three consecutive years by OER, the best bank in Oman 2012 by World Finance and the Bankers award 2013. AbdulAziz has held positions of increasing responsibility in all major areas of Banking. Abdulaziz started his career with Oman International Bank and prior to joining Ahlibank, he was Deputy CEO of National Bank of Oman.

AbdulAziz holds Master of Science Degree in Finance from the University of Strathclyde (UK) and a Fellow Chartered Institute of Bankers (UK). He has attended a host of Specialized Executive Management Development Programs at International Institutes of worldwide repute including, London Business School, INSEAD Business School and Strathclyde University Business School. In November 2012, he was ranked as the "Second Best CEO in the Arab Banking World" by Forbes Magazine.

AbdulAziz is the Chairman of Board of Directors at Oman Electricity Transmission Company SAOC (a wholly government-owned entity), Ubhar Capital SAOC, Oman Real Estate Investments and Services SAOC and Oman National Investment Corporation SAOC. He is also a Board member at Oman Arab Bank SAOC, National Finance Co. SAOG and National Life and General Insurance Company SAOG. Additionally, he is a member of Oman American Business Center, an organization formed to foster the development of commercial activity between the United States of America and the Sultanate of Oman.

Mr. K. Palanivelu has been appointed as Director and member of the Audit Committee since June 2016.

Mr. K. Palanivelu is a Graduate and a Member of the Institute of Chartered Accountants of India. Mr. Palanivelu has an overall experience of 30 years in the field of finance and banking. Prior to joining the Zubair Group he was employed with a large conglomerate of petrochemicals, pharmaceuticals and shipping in India for about 15 years. He has held various positions with that group in India and Jordan.

Mr. Palanivelu joined the Zubair Group in 2004 as Manager – Group Treasury and was promoted to Head of the Group Treasury before being elevated to the position of Chief Financial Officer of The Zubair Corporation Group. He has handled large finance transactions for the Group and is well connected in the banking circles of Middle East and India.

Mr. Rashid Saif Al Mardhoof Al Saadi has been appointed as Director and member of the Risk Committee since October 2018.

Mr. Rashid is a renowned financial & investment banker, business executive, entrepreneur and philanthropist best known as the CEO of TANMIA, a company that contributes to the economic development in the Sultanate of Oman by joining with the right partners for the necessitated projects. An experienced Finance & investment professional, he holds a B. Sc. in Business Administration from Rollins College, USA, in 1986 and has spent his career working with investors, professionals, foreign nationals, high net worth individuals and Government offices. He is a Director of several public companies.

Mr. Badar Awadh Al Shanfari has been appointed as Director and member of the Risk Committee since October 2018.

Mr. Badar is the Deputy Chief Executive Officer of Jabreen Capital. Badar has more than 15 years of experience in the investment industry where he has held various leadership positions. Prior to joining Jabreen Capital, Badar was the General Director of Uzbek-Oman Investment Company and UzOman Capital, which is a joint venture between Oman's Sovereign Wealth Fund (State General Reserve Fund) and Fund for Reconstruction & Development of Uzbekistan, the leading Private Equity investor in Uzbekistan. Before joining Uzbek Oman Investment Company, Badar spent 4 years as part of the Private Equity team at the State General Reserve Fund (SGRF). Prior to SGRF, Badar was Financial Services Manager at Oman Refineries and Petrochemicals Company LLC (ORPIC). Mr. Al Shanfari is a Certified Public Accountant from the state of Delaware and has a Masters in Business Administration Degree from University of Strathclyde (UK).

Brief profile of senior management

Mr. Robert Pancras, Chief Executive Officer joined the Company in November 2018. Mr. Pancras was the Chief Executive Officer of National Finance from May 2005 to April 2018. Mr. Pancras has over 28 years of experience in banking and financial services, including more than 17 years experience in the area of Asset Finance in India, Australia and Oman. 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. Sunil Kumar Pherwani, General Manager – Business has over 28 years of work experience and has worked as Senior Management Executive in financial services sector in North America, Middle East, and South Asia. He had earlier been mainly associated with the ORIX Group and has worked in different capacities with ORIX Leasing Pakistan Limited (OLP) & Oman ORIX Leasing Company SAOG (OOLC). He has been working with National Finance Co. SAOG as General Manager since OOLC's merger with National Finance in March 2018. He holds an MBA degree in financial management and MA in political Science.

Mr. Bikram Singh Monga, General Manager – Risk and Controls, joined the Company in December 2018. He is a senior management professional with over 20 years of extensive local and international experience in financial services industry. His experience includes working with leading institutions across GCC, Western & Eastern Europe and Central Asia, where he has accumulated an extensive understanding of various markets and advised businesses in multicultural environments. Prior to Joining National Finance, Bikram was the Chief Risk Officer of OMINVEST since June 2014. Bikram holds a BSc (with honors) in Mechanical Engineering from Moscow and an MBA from University of Alberta, Canada. Bikram graduated from Harvard Business School through its Senior Executive Leadership Program.

BOARD SUB-COMMITTEES

Nomination, Remuneration and Executive Committee

The Nomination, Remuneration and Executive Committee comprises of 3 Directors and is currently headed by the Company's Deputy Chairman Mr. Hani Al Zubair. The other members of the Nomination, Remuneration and Executive Committee are Mr. K. Balaji and Mr. AbdulAziz Al Balushi.

The Nomination, Remuneration and Executive Committee is responsible for recommending new Directors for approval by the Shareholders, identification and remuneration of the key management, approval of banking facilities and credit facilities within the authority levels delegated by the Board of Directors. The Nomination, Remuneration and 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 2018, the Nomination, Remuneration and 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 (Audit Committee from October 2018)

The Audit and Risk Management Committee comprised of 3 Directors in 2018, all being non-executive directors nominated by the Board. The Committee is headed by Mr. Pramod G. Karajgikar. The other members of this Committee are Mr. Francis Pinto and Mr. K. Palanivelu. The Committee assists the Board in fulfilling its oversight responsibilities. The 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 2018, the Committee met five times, viz. on 16th January, 6th February, 25th April, 25th July and 25th 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.

The Audit and Risk Management Committee was renamed to Audit Committee in October 2018. The members of the Audit Committee remain unchanged.

Risk Committee

The Board established a new Risk Committee in October 2018, with the following members:

1. Mr. AbdulAziz Al Balushi, Chairman
2. Mr. Rashid Al Saadi, Member
3. Mr. Badar Al Shanfari, Member

The Risk Committee will start functioning with effect from the year 2019. The Risk Committee will be responsible for management of overall risks and company's process for monitoring compliance with laws and regulations.

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 Nomination, Remuneration and 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 2018, all the significant activities of the company were reviewed by 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 were entitled for sitting fees of Rials 500 each per meeting. During the year 2018, the Directors were paid sitting fees for the Board meetings, Nomination, Remuneration and Executive Committee meetings, Audit and Risk Management Committee meetings and Working Group meetings, details of which are provided in Table 1.

The company has provided an amount of Rials 147,500 (Rials 156,500 paid in 2018 for 2017 remuneration) during the year on account of Directors' remuneration which will be paid in 2019 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 844K which includes all allowances, travel and transport expenses, perquisites and bonus.

Evaluation of Board of Directors

As per the new code of Corporate Governance for Public Listed Companies issued by the Capital Market Authority in July 2015, the performance of the Board of Directors needs to be reviewed impartially and independently by a third party appointed by the annual general meeting in accordance with a benchmark and standards set by the board or the general meeting. The Shareholders' in the Annual General Meeting held on March 27, 2018 have appointed Protiviti, an independent entity, to evaluate the performance of the Board of Directors for the financial year ending December 31, 2018. Protiviti have carried out the evaluation of the Board of Directors and have submitted their report.

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 2018 will be discussed in the Shareholders' meeting scheduled to be held in March 2019.

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 Report) 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	% of holding
Al Hilal Investment Company LLC	29.432
Oman International Development Investment Co. SAOG	34.603

The remaining shareholding pattern as at 31 December 2018 was as follows:

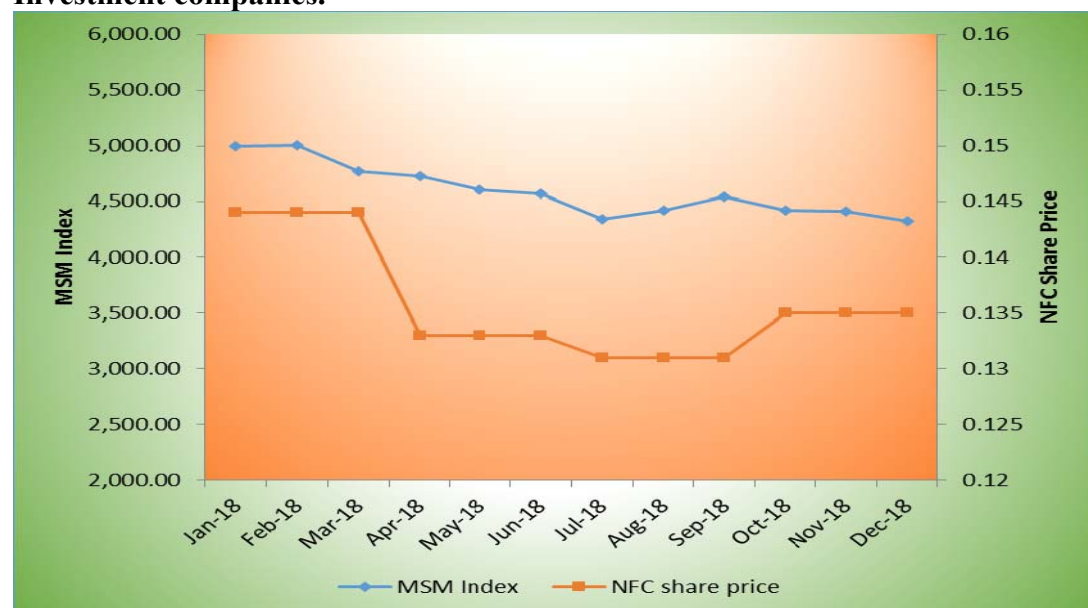
Category	No. of shareholders	% of holding
0-30,000	112	0.146
30,001 - 60,000	9	0.076
60,001 - 90,000	4	0.058
90,001 - 120,000	0	0.000
120,001 - 150,000	2	0.049
Over 150,001	43	35.636
Total	170	35.965

Statement on Market Price

The Company's shares are listed in the Muscat Securities Market. The closing share price as at 31 December 2018 was Rials 0.135 per share. The market price quotes for the traded shares during 2018 were as follows.

Month	High	Low	Close	Traded Volume	Value Rials
January	0.144	0.144	0.144	300	43
February	0.144	0.144	0.144	-	-
March	0.144	0.144	0.144	-	-
April	0.137	0.125	0.133	511,915	68,536
May	0.133	0.130	0.133	11,869	1,576
June	0.120	0.120	0.133	1,000	120
July	0.135	0.120	0.131	35,988	4,721
August	0.131	0.131	0.131	4,900	642
September	0.131	0.131	0.131	-	-
October	0.136	0.131	0.135	7,588	1,027
November	0.135	0.135	0.135	-	-
December	0.206	0.206	0.135	47,372,623	9,758,760

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



STATUTORY AUDITORS

The shareholders of the company appointed KPMG as its auditors for 2018. KPMG in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 180 people, amongst whom are five partners, six directors and 30 managers, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. KPMG operate in 153 countries and territories and have 207,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

KPMG billed an amount of RO 56,000 towards professional services rendered to the Company for the year 2018.

DETAILS OF NON-COMPLIANCE

There was an instance of non-compliance of the guidelines issued by the Central Bank of Oman over the last three years for which the Company was levied a penalty of RO 5,400 in 2016. 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 2018.

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 Jandal Ali
Chairman

Table 1

Name of the Director	Institution represented	Whether attended last AGM held on March 27, 2018	No. of meetings attended				Director-ship in other SAOG Companies	Sitting Fees paid to each Director during 2018 Rials	Directors Remuneration paid to each Director during 2018 Rials
			Board	Nomination, Remuneration and Executive Committee	Audit and Risk Management Committee	Working Group			
Taya Jandal Ali	Himself	Yes	9	1	-		1	5,000	39,125.000
Hani Al Zubair**	Himself	Yes	8	3	-		-	5,500	19,562.500
Pramod G. Karajgikar	Muscat Contract Cleaning & Maintenance LLC	Yes	10	-	5	3	-	9,000	19,562.500
Francis Pinto	Al Thurya For Investments LLC	Yes	10	-	5	3	1	9,000	19,562.500
K. Balaji	Al Hilal Investment Co. LLC	Yes	10	4	-	3	-	8,500	19,562.500
AbdulAziz Al Balushi	Oman International Development and Investment Co. SAOG	No	8	4	-	3	1	7,500	19,562.500
K. Palanivelu	Muscat Trading Co. LLC	Yes	8	-	4		-	6,000	19,562.500
Mr. Rashid Al Saadi*	Himself	No	3				3	1,500	-
Mr. Badar Al Shanfari*	Himself	No	1				1	500	-
Total								52,500	156,500

**Both these Directors have been appointed with effect from October 2018.*

*** Mr. Hani Al Zubair is the Chairman of the Nomination, Remuneration and Executive Committee with effect from October 2018.*