

REPORT ON CORPORATE GOVERNANCE
FOR THE YEAR ENDED DECEMBER 31, 2019

1. COMPANY PHILOSOPHY

Muscat Finance (SAOG) believes that equitable, ethical and transparent treatment of all stakeholders is the corner stone of the long term success of the organisation. Its Code of Corporate Governance is drawn up in keeping with this philosophy and is in compliance with the principles set out by the Capital Market Authority (CMA), through its Code of Corporate Governance and the Central Bank of Oman through its Circular BM 932. This report highlights the key features of Muscat Finance (SAOG) Corporate Governance processes and its compliance with the New Code of Corporate Governance issued via CMA Circular No. 4/2015 dated July 22, 2015 applicable from July 2016 and CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 1, dated 18 March 2009.

2. BOARD OF DIRECTORS

2.1 Composition and Classification:

The composition of the Board is in accordance with Second Principle Note 3 of the “Code of Corporate Governance (COCG) for Public Listed Companies”, issued in July 2015”. All Directors are Non-Executive and the role of the various members and their relationship to the company are summarised below:

Name of Director / Position	Representing	Independent	Number of Board Meetings attended	Whether attended last AGM	Number of Directorship in other SAOG companies excluding MFC	
					Director	Chairman
Mr Faisal Mohamed Al Yousef Chairman	Fincorp Investments LLC	Not Independent	8	Yes	2	Nil
*Mr. Clive Hammond Director	Zawawi Trading Company LLC	Not Independent	5	No	Nil	Nil
Mr. Babu P Thomas Director	Al Siraj Holdings LLC	Independent	8	Yes	Nil	Nil
Mr Abdul Amir Saied Mohamed Director	Self	Independent	7	Yes	1	Nil
Mr. Gamal Mohammed Mohammed Ahmed Abdalla Director	Oman Mechanical Services Co.Ltd.LLC	Independent	6	Yes	2	1
Mr. Yousef Al Yousef Director	National Insurance & Investment Services Center LLC	Independent	4	Yes	Nil	Nil
Mr. Pramod Kumar Hiran Deputy Chairman	Omar Zawawi Establishment LLC	Independent	8	Yes	Nil	Nil
Mr. Chandrahasan Thozhukkat Menon Director	Huriah Co. LLC	Independent	5	Yes	Nil	Nil

* Resigned on 11 November 2019

Resigned during the year

Name of Director / Position	Representing	Independent	Number of Board Meetings attended	Whether attended last AGM
Mr. Clive Hammond *	Zawawi Trading Company LLC	Not Independent	5	Yes

* Resigned on 11 November 2019

Appointed during the year

Name of Director / Position	Representing	Independent	Number of Board Meetings attended	Whether attended last AGM
Mr. Naveen Kumar Goyal *	Zawawi Trading Company LLC	Not Independent	Nil	No

*Appointed on 12th November 2019,

The revised definition of “Independent Director” as per the New Code of Corporate Governance issued via CMA Circular No. 4/2015 dated July 22, 2015 applicable from July 2016 and CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 1, dated 18 March 2009”.

2.2 The Board has ultimate responsibility for guiding the strategies and policies of the Company and for compliance with good governance practices. During the year 2019, the board comprised of directors with varied background and experience, who collectively exercise independent and objective judgement in directing the strategies and policies of the Company. In keeping with best practices, the Board has delegated authority to the Management to ensure smooth day to day running of the Company.

2.3 Board Meetings and Dates:

There were eight meetings of the Board, in 2019

These meetings were held on (February 10, March 20, April 24, May 23, June 13, July 16, October 24, December 15) The quarterly results of the Company are reviewed at Board meetings, in addition to the information as required in Annexure – II of the “Code”.

2.4 Profile of Board Members**Mr Faisal Mohamed Al Yousef - Chairman**

He is a Chartered Certified Account (FCCA, UK) with Bachelor of Science degree in Economics from the University of London, UK. Worked with Ernst and Young as an Audit Specialist before joining Al Yousef Group LLC as the Chief Operating Officer. He represents the Al Yousef Group on the Boards of various investee companies such as: Chairman of Rees Oil & Gas LLC (Rees), Deputy Chairman of Cactus Premier Drilling Services SAOC, Director of Truckoman Oil and Gas Services SAOC, Director of Dhofar International Development & Investment Holding Company S.A.O.G (DIDIC) and board member in Bank Dhofar SAOG. He was also a Board member of Private and Commercial Finance Group Plc., a Finance Group that is listed on the Aim market in the UK.

Mr. Pramod Kumar Hiran – Deputy Chairman

Indian National. Science Graduate. Associate member of Institute of Chartered Accountants of India and member of the Institute of Cost Accountants of India. In his professional stint of 25 years, he has worked with Merchant Banker. Manufacturing organisation and leading Telecom Operator in India. Presently he is working with OMZEST Group. He is currently Director on the Board of Oman Agriculture Development Co SAOC, Akzo Nobel Oman SAOC and Oman Re-insurance SAOC.

Mr Abdul Amir Saied Mohamed – Director

He is a Post-graduate with Master's in Business Administration from Oxford Brooke University UK. He was the Deputy Chief Executive with SGRF (State General Reserve Fund). He is on the Boards of various companies such as Oman Fisheries Co SAOG, and Sembcorp Salalah SAOC. Has held Directorship of various public limited companies in the past, in and outside Oman and also participated in various seminars and conferences in the fields of investment.

Mr.Chandrasahsan Thozhukkat Menon - Director

Graduated with a Bachelor of Arts in Economics. He started his carrier with Escorts India Private Limited New Delhi, after which he moved to Oman and been in Oman from last 37 years. He is presently working with Huriah Co. LLC for last 20 years and carries a vast experience in business management.

Mr Babu P Thomas - Director

A commerce graduate, Fellow of the Institute of Chartered Accountants of India and Certified, Associate of the Indian Institute of Bankers, with wide ranging experience in banking, corporate financial management, auditing, project planning, implementation and operation. Started his career as an officer in Corporation Bank, India and worked as Senior Manager in the investment division of the South Indian Bank Ltd. Since year 2000 he is with Al Siraj Holding LLC and is currently its CFO.

Mr Gamal Mohammed Mohammed Ahmed Abdalla – Director

His core competency lies in the area of taxation with experience with the Egyptian Tax Authority and the Secretariat General of Taxation, Sultanate of Oman. He is a Tax advisor with the Omar Zawawi Establishment, advising on the tax matters of the group. He represents the group on the Board of Muscat National Holding Co (SAOG), Areej Vegetable Oils Co. (SAOG) and Oman Methanol Co. LLC.

Mr. Naveen Kumar Goyal – Director

A Chemical Engineer with post graduate degree in Process Engineering & Design having more than 32 years of rich experience in pre-project activities for large industrial projects including Project evaluation, documentations, Project financing and also merger & acquisitions, joint ventures, investments, etc. Prior to joining Omzest group, he worked with Oman Oil Company for more than two years and before that with KRIBHCO, India for 17 years at various levels

Mr Yousef Al Yousef- Director

Graduated with a Bachelor of Sciences (Honours) degree from King's College London, UK. Started his career as a Financial Analyst at MENASA Capital Management Limited, a multi-asset focused Hedge Fund and an affiliate of the Abraaj Capital Group in Dubai, UAE. He then went on to join the family business as an Investments Manager at Al Yousef Group LLC as well represent the family's interest on the Boards of various companies. Currently he is the co-founder / Director of Babuntu Capital LLC, an investment manager based out of Cayman Islands; co-founder / Managing Partner of Babuntu Asset Management Consultancy, a management consultancy and advisory firm based in Dubai, UAE and co-founder / Managing Director of SRG Real Estate Solutions Limited, a German real estate focused advisory firm.

2.5 Profile of members of Management:

Mr. Maneesh Srivastava- Chief Executive Officer

He has over 25 years of experience in the financial services and consumer product distribution industry. He holds a Bachelor's Degree in Electronics and Telecommunications Engineering from MANIT Bhopal and a Master's in Business Administration from Faculty of Management Studies, Delhi University. He is the former CEO of Muthoot Housing Finance Company Limited and has also spent over a decade in HSBC bank. He is speaker at various summits on financial inclusion and is extremely passionate about the cause of ensuring outreach of financial products to the excluded sections of society.

Mr Baqir Mohsin Baqir Al Abdul Latiff, Assistant General Manager -Accounts receivable

He is a Graduate from International University Europe – London. Has a total of 25 years' of experience in Public and Private Sector. Worked with Ministry of Social Affairs and Labour as executive at Technical Office, Oman Arab Bank as executive in Foreign department and Zubair Group for 18 years as Group Manager Admin & HR for OCS InfoTech, Zubair Telecom, Computer Software Solutions and Oman Development and Research Company.

Mr. Athmanathan Sundaresan- Assistant General Manager

An Economics Graduate from Bangalore University, Post Graduate in Marketing Management from Mysore University and General Management Program from Indian School of Business, has over 31 years of industry experience in leasing, hire purchase business in marketing, credit, receivables management, product development etc., both in India and in Oman. Has been with the company for over 25 years, has worked in various capacities in retail, corporate marketing and instrumental in establishing corporate leasing division.

3. SUB COMMITTEES OF THE BOARD OF DIRECTORS

There are four Sub-Committees of the Board--**The Audit Committee, The Executive Nomination and Remuneration Committee (ENRC), Risk Management Committee and Special Task Force** --which have been delegated with key powers and responsibilities by the Board.

3.1 Audit Committee (AC):

Muscat Finance's Audit Committee consists of 3 members of the Board of Directors.

The names, positions & attendance record of Audit Committee members in 2019 are as follows:-

Name of Audit Committee member	Position	Number of Audit Committee meetings attended in 2019
Mr. Abdul Amir Saied Mohamed	Chairman	9
Mr. Babu Thomas	Member	9
Mr. Clive Hammond (<i>From 1st January 2019 till 11 November 2019</i>)	Member	6

All members of the Audit Committee are experienced in the fields of Business Management. The Audit Committee met 9 times during 2019. The Audit Committee meetings were held on February 9, March 25, April 16, May 9, May 28, July 15, September 15, October 22 and December 3.

One of the major functions of the Audit Committee in Muscat Finance is to review & analyse the financial statements and provide recommendations to the Board of Directors for its approval. The other major function is to review and approve the various Risk Based Internal Audit Reports which are based on review of control framework and processes and testing of controls to provide an independent & objective opinion on the adequacy of design and operating effectiveness of the overall Governance, Risk Management and Internal Control Framework and processes within the organization. Other important functions of the Audit

Committee include review of the policies and procedures and recommend their approval to the Board of Directors, oversee the Compliance Function and regularly review the organization's compliance with regulatory requirements & guidelines, review Internal Audit Department's proactive recommendations on new system, strategies of the organization, new products, new business lines, etc. The Audit Committee oversees the functioning of the Internal Audit Department and regularly reviews its performance to ensure its effectiveness and efficiency in achieving its goals and objectives. The Head of Internal Audit Department independently and functionally reports to the Chairman of the Audit Committee.

In addition to the above functions & activities, the Audit Committee has regular discussions with internal auditors & external auditors on significant audit findings and the overall control environment within the organization. In 2019, the Audit Committee also met the internal auditors and external auditors in the absence of management as required by the Code of Corporate Governance.

The Audit Committee regularly briefs the Board of Directors on the overall Governance, Risk Management and Internal Control Framework & processes within the organization, significant audit findings and other matters falling within its areas of responsibility.

3.2 Executive Nomination and Remuneration Committee (ENRC):

The Executive Committee comprises of four Board members. Details of the members and their attendance at the meetings held are as follows:

Name of Director	Position	Number of meetings attended
Mr Faisal Mohamed Al Yousef	Chairman	23
Mr. Pramod Kumar Hiran	Member	24
Mr. Gamal Mohammed Mohammed Ahmed Abdalla	Member	14
Mr. Chandrahasan Thozhukkat Menon	Member	18

The ENRC is delegated with executive authority to facilitate the smooth running of the operations of the Company. It is vested with extensive powers which review key parameters of performance, monthly results vis-à-vis budgets, and approves banking relationships, credit proposals for limits beyond the authority of the Management and oversight of operations, ensuring that best practices are followed. The Committee met 24 times in 2019. These meetings were held on January 2, January 24, January 30, February 27, April 2, April 10, April 21, May 27, June 16, June 25, July 4, August 5, August 26, September 3, September 8, September 17, October 8, October 14, October 22, November 6, November 19, December 2, December 9 and December 29.

3.3 Risk Management Committee:

The Risk Management Committee was formed by the Board of Directors on 25th August 2011 to supervise the Risk Management functions relating to identification, monitoring and measurement of the risks faced by the company and take appropriate measures to mitigate these risks. Details of the members and their attendance at the meetings held are as follows:

Name of Director	Position	Number of meetings attended
Mr Clive Hammond (<i>till 11November2019</i>)	Chairman	3
Mr Babu P Thomas	Member	3

Mr. Yousef Al Yousef	Member	1
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The Committee, met three times in the year. These meetings were held on March 27, May 15 and August 1.

3.4 **Special Task Force Committee:**

The special Task force was formed by the Board of Directors on 23rd May 2019. The Special Task Force is formed for overseeing the NPL's of the company. The Committee consist of one board member nominated by the Board and four members of the management team.

Details of the members and their attendance at the meetings held are as follows:

Name of Special Task Force members	Position	Number of meetings attended
Mr. Babu Thomas	Chairman	10
Mr. Maneesh Srivastava	CEO	9
Mr. Baqir Abdullatif	AGM- Collections	8
Mr. Sundaresan	AGM- Corporate Collections	10
Mr. Ahmed Taqi	Factoring collections Manager	10

The Committee met 10 times during 2019. The Special Task Force meetings were held on 12th June 2019, 26th June 2019, 25th July 2019, 21st August 2019, 9th September 2019, 18th September 2019, 2nd October 2019, 3rd November 2019 and 9th December 2019.

4. **PROCEDURE FOR BOARD MEMBERSHIP**

The nominees to the membership of the Board must comply with provisions of Article 95 of the Commercial Company Law No.4/74 and amendments thereto as well as the Articles of Association of the Company. As per the Articles of Association of the Company, the Company is governed by a Board of Directors comprising eight members.

5. **REMUNERATION**

a) **Remuneration to Directors:**

The Directors are paid remuneration for the discharge of their responsibilities as members of the Board and a sitting fee for each meeting attended. Similarly, members of each sub-committee of the Board are paid an additional remuneration for the additional responsibility and a sitting fee for each meeting of the relevant committee. Details of Board and Sub- Committee remuneration are summarised below:

- i.) The Board of Directors have been paid/provided a total remuneration of RO 44,000/-comprising of RO Nil as Remuneration and RO 44,000/- as Sitting fees as per details listed below:

(Rials Omani)

Name of Director	Sitting Fees					Total of sitting fees	Remuneration
	Board	ENRC	AC	RMC	S T F		
Mr Faisal Mohamed Al-Yousef	2,000	5,750	NIL	NIL	NIL	7,750	NIL
Mr Pramod Kumar	2,000	6,000	NIL	NIL	NIL	8,000	NIL
Mr. Clive Hammond	1,250	NIL	1,500	750	NIL	3,500	NIL
Mr Abdul Amir Saied Mohamed	1,750	NIL	2,250	NIL	NIL	4,000	NIL
Mr Babu P Thomas	2,000	NIL	2,250	750	2,500	7,500	NIL
Mr. Gamal Mohammed Mohammed Ahmed Abdalla	1,500	3,500	NIL	NIL	NIL	5,000	NIL
Mr. Yousef Al Yousef	1,000	NIL	NIL	250	NIL	1,250	NIL
Mr.Chandrasahsan Thozhukkat	1,250	5,750	NIL	NIL	NIL	7,000	NIL
Total	12,750	21,000	6,000	1,750	2,500	44,000	NIL

b) Remuneration to Management:

Management is paid monthly salary and allowances based on their experience, qualifications and role in the management of the Company. In addition, an annual bonus is declared, based on the profits of the Company, to reward management and staff for superior performance.

Top 5 Members of Management were paid a combined remuneration of RO 269,629/- including variable component. The end of service benefit is accrued in accordance with the Oman Labour Law.

6. DETAILS OF NON-COMPLIANCE

The Company is in compliance with the regulations pertaining to Capital Markets. There was a penalty of RO 10,000 which pertained to CBO Examination 2019.

7. CHANNELS OF COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

- 7.1 The Company has an active programme of communication with the shareholders. The Company's own website at www.mfcoman.com and the MSM website are posted with the quarterly and annual results of the Company. In addition, annual results are mailed to the shareholders and the quarterly and financial statements are published in the leading newspapers and also informed to the CMA.
- 7.2 The Annual Report of the Company carries a management discussion and analysis report providing a broad overview, by management, on the operations of the Company and expectations for the future.
- 7.3 The Management Discussion and Analysis Report is part of the Annual Report.

8. MARKET PRICE AND DISTRIBUTION OF SHAREHOLDING

8.1 Market Price Data:

The movement of the Company's shares vis-à-vis the monthly closing of the financial sector index is presented below:

Month	High (RO)	Low (RO)	Close (RO)
Jan 2019	0.090	0.087	0.089
Feb 2019	0.089	0.084	0.088
Mar 2019	0.088	0.086	0.086
Apr 2019	0.081	0.070	0.07
May 2019	0.071	0.063	0.067
June 2019	0.067	0.063	0.064
Jul 2019	0.065	0.061	0.062
Aug 2019	0.064	0.061	0.063
Sep 2019	0.071	0.064	0.068
Oct 2019	0.070	0.059	0.06
Nov 2019	0.066	0.060	0.06
Dec 2019	0.061	0.050	0.051

8.2 Distribution of Holdings:

The Shareholding pattern as of December 31, 2019 is as follows:

Number of Shares	Number of Shareholders	Total Shares	Percentage of Share Capital
Above 30,714,633 (Above 10%)	2	124,793,425	40.63%
15,357,316 – 30,714,633 (5% -10%)	2	47,108,417	15.34%
3,071,463 – 15,357,316 (1% - 5%)	14	89,790,497	29.23%
Below 3,071,463 (Less than 1%)	473	45,450,986	14.80%
GRAND TOTAL	491	307,143,325	100%

9. PROFESSIONAL PROFILE OF STATUTORY AUDITORS

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10. REMUNERATION OF THE STATUTORY AUDITORS

The Professional fees paid / due during the year 2019 are as follows:

Particulars	RO
Audit fees	16,000
Other services	5,500
Others (<i>Corporate Governance</i>)	500
Total	22,000

11. Corporate Social Responsibility

The Company acknowledges its responsibility towards contributing to the community. In this regard, the Company during the year, made contribution towards social causes to the various organizations engaged in charitable and community development activities.

12. ACKNOWLEDGE BY THE BOARD OF DIRECTORS

12.1 The Board of Directors acknowledge their responsibility for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosures requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

12.2 There is no change in the circumstances/environment of the company that may materially affect the continuation of the company and its ability to continue its operations during the next financial year.

13. BOARD EVALUATION

In line with the revised “Code of Corporate Governance (COCG) for Public Listed Companies”, issued in July 2015”and subsequent clarification via Circular Ref E/20/2016 issued on October 2015, in line with this the Board Evaluation was conducted in 2018 by an independent third party. The primary objective of the engagement was to evaluate the Board of Directors to ensure compliance with the revised code referred above and suggest any improvement opportunities to enhance the effectiveness and efficiency of the Board of Directors.
