

Muscat Finance: Director's Report 2020

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Annual Report for the year ended December 31, 2020.

The year 2020 started on a disconsolate note of the sad demise of our revered HM Sultan Qaboos bin Said. This followed by the outbreak of COVID-19 and its consequential lock down caused an unplanned slowdown of the economy. The operating cash flows for the corporate sector in general came under stress, while economic activity receded through 2020. This resulted in new lending opportunities to be limited, also causing an increase in non-performing loans for the Company.

The Company reorganized its resources towards proactively managing its customers through concerted collection efforts. The Company also ensured that services continue for its customers during the pandemic. Remedial and legal functions were strengthened to continue the focus on recoveries through 2021.

Muscat Finance is optimistic about the Sultanate's vision 2040 of diversifying the economy into non-hydrocarbon areas, resulting in a diverse source of revenue streams and a more vibrant economy going forward. This will translate into a wider opportunity for Muscat Finance SAOG and the finance sector in general.

Business Results

Due to the prevailing conditions through the year, Muscat Finance has been selective in new lending. This has resulted in the portfolio growth to be below budgeted levels. The Company stood by existing clients in offering payment deferments where merited and helping them navigate a difficult year.

In Retail finance, signs of improvement in business activity towards the latter half of the year have been observed. The Company has positioned well with its partners through initiatives such as 'Ihtifal Tamweel' wherein the end customer receives additional value for the borrowing relationship with the Company. Such alliances will go a long way in capturing lending opportunities as the market activity improves further. On the corporate front, the Company also proactively accommodated our clients through the year.

A detailed review of the operational results of the Company has been covered in the Management Discussion and Analysis Report.

Capital Management & Dividend

The Company's history of dividend payments over the last 5 years is as follows:

Year	Cash Dividend %	Stock Dividend %	Total %
2015	10.00	6.00	16.00
2016	10.00	7.00	17.00
2017	8.00	5.00	13.00
2018	6.25	2.50	8.75
2019	-	-	-
2020	-	-	-

Change in the Composition of the Board

During the year, one member of the Board did not offer himself for re-appointment, one was appointed and resigned, and three new members have joined the Board. Mr. Mohamed Redha, Mr. Haitham Al Busaidi, and Mr. Sultan Al Kaabi bring a wealth of experience to the Board.

The Board believes that it has the diversity required to overcome the challenges of the current external environment and take advantage of the prevailing opportunities through relooking at its processes and resources available.

Accordingly, the Sub-Committees of the Board have been reconstituted. The details are provided in the Report on Corporate Governance.

The Board would like to record its thanks and appreciation to Mr Abdul Amir Saied Mohammed who decided not to run for election and Mr. Ahmed Mohammed Al Abri who resigned during the year.

Rating Update

Capital Intelligence, an independent credit rating agency, which has been rating our company in the past, has maintained a National Scale rating of omBB+ Long Term and omA2 Short Term, with a Stable Outlook for our company in 2020.

HR and Our People

The Omanisation ratio at 86.8% for the year ended December 31, 2020, continues to be above the 80% requirement of the Central Bank of Oman.

Employee welfare and safety was a primary concern during the year due to the pandemic. The Company facilitated staff schedules in order to protect the staff in accordance with the government guidelines. The company stays invested in nurturing Omani talent through to senior roles, in partnership with ACCA and its CAT program.

The company has reinforced its senior management through the appointment of Mr. Mahmood Al Subeihi as AGM, HR and Admin, Mr. Ali Taqi as Head of Compliance, Mr. Rajeev Arora as DGM, Business Transformation and Strategy and Mr. Pratik Punjabi as CFO during the year. Mr. Fahd Bin Amjad has joined as DCEO to strengthen the leadership.

Re-engineering and Innovation committee has been tasked to relook at the organisation structure to come up with a lean structure with stronger controls and accountability, targeting reduced processing times.

Information Technology

In November 2020, a new state-of-the-art Credit Bureau System called ‘Malaá’ was launched to support the financial services sector in Oman. Muscat Finance was amongst the early subscribers for the service as a member of the Credit Bureau and now exchanges data information through the Mala’a system. This improves our risk management capabilities, as well as providing our customers complete information on their credit facilities.

The company is in the process of upgrading its Enterprise Resource Planning software. This is expected to achieve improvements both in customer experience and process efficiency, leapfrogging the way the company conducts its business. The company will upgrade its capabilities to serve customer digitally across channels through the new system.

Corporate Social Responsibility

The company acknowledges its responsibility towards contributing to the community, stemming from its strong belief that the society at large is the reason for the success of Muscat Finance.

During 2020, your company made a financial contribution of RO 60,000/- towards government institutions involved in combating the outbreak of COVID-19, in order to complement their efforts.

Corporate Governance

Your Company has always supported the highest levels of Corporate Governance. Details of our Corporate Governance philosophy and processes are described in the Corporate Governance Report included in the Annual Report

Business outlook for 2021

Due to the uncertainty related to COVID-19, reviving the pace of economic recovery remains challenging. It is expected that with a successful vaccination drive in the Sultanate, the operating environment may slowly improve through the year. In such times, your Company will remain vigilant in identifying lending opportunities while continuing its focus on recovery of non-performing loans. The company will seek to enhance the use of technology in improving customer acquisition and servicing. It will continue to upskill its' people and processes to strengthen its reputation as a customer focused lender. The changes will reflect in the Company's business performance during the year.

Acknowledgement

On behalf of the Board, I would like to offer our best wishes and unfaltering loyalty and obedience to His Majesty Sultan Haitham Bin Tariq as he takes forward the legacy of Late His Majesty Sultan Qaboos Bin Said, whose Leadership and Vision provided the foundation for the economic, political and social progress of the Sultanate of Oman. I would also like to thank His Majesty's Government, the Central Bank of Oman, the Capital Market Authority, Ministry of Commerce and Industry and other Regulatory Authorities for their continued support and guidance.

The Board would like to thank all our customers for their continued patronage and support, to our local and overseas bankers for their active co-operation, and to all the shareholders for the confidence reposed in its Board.

Finally, the Board would also like to thank the management and the staff.

On Behalf of the Board of Directors

Faisal bin Mohamed Al Yousef
CHAIRMAN
