

Chairman's Message

Board of Directors Report Dear Shareholders, On behalf of the Board of Directors, it is my pleasure to present to you the audited financial results of your company for the year ended 31st December 2016.

The Economic Environment

During 2016 the Oman economy faced many macroeconomic challenges as oil prices remained below the budgeted level during most part of the year. The government displayed maturity and economic wisdom in adopting several measures to curtail unproductive expenditure to contain the budget deficit. Given the contraction in oil revenue, the government raised funds from the domestic and international markets to pursue key ongoing infrastructure and developmental projects to maintain economic momentum. These measures aided the economy to grow modestly despite the impact of the drop in oil revenue. The market witnessed a general slowness in economic activity due to which business levels were down, especially during the second half of the year. The government's thrust to diversify into non-oil segments to augment its revenue sources is gaining traction, with focus on developing tourism, healthcare, transport, logistics and aviation sectors. These initiatives are aimed at balancing the sources of revenue across diversified segments to weather the impact of decline in oil revenue, the results of which would be seen over the next few years.

2016 was a tough year for the Banking Services industry. The market witnessed a decline in the demand for commercial vehicles and equipment, in lieu of the limited opportunities for deployment, coupled with the drop in hiring rates and delayed settlement of dues by contractors. The demand for private vehicles also registered a decline as a result of reduction in the disposable income due to trimming of allowances in the public and private sectors. These factors affected the overall market potential for expansion of credit and increased competition amongst peers. Banks continued to penetrate into vehicle financing and SME funding segments, thus narrowing down the market scope of FLCs and triggering severe competition and a decline in lending rates. The tightening of liquidity pushed up the interest rates on borrowings resulting in contraction of net interest income. The delayed payment cycle witnessed across the market resulted in strained cash flow to borrowers and their inability to meet their loan obligations on time. This development triggered an increase in delinquencies which is likely to prevail in the near term, till the regular payment cycle is restored.

The year under review

Your company registered a modest performance during 2016 given the subdued and adverse market conditions. The company recorded a net profit of RO 4.50M for the year 2016 as against RO 5.24M for the previous year. The decline in profitability is mainly attributed to the increase in interest cost and incremental provisions on impaired assets. The loan book stood at RO 114.55M as at 31st Dec. 2016 as against RO 118.45M as at 31st Dec. 2015. The nominal decrease in the loan portfolio is attributed to the subdued market and foreclosure of loans. Our concerted efforts on the recovery front helped in restraining impaired assets at RO 11.56M as at 31st Dec. 2016 as against RO 11.0M as at 31st Dec. 2015.

The company holds a cumulative provision of RO 4.5M as at Dec. 2016 and a Special Reserve of RO 2.37M to guard against delinquencies from unforeseen quarters. The Management would pursue appropriate recovery measures to improve collection efficiency and restrain the level of impaired loans despite the tough challenges envisaged in the year ahead.

Your company maintained a comfortable funds position all through 2016. Banks continued to repose confidence and have been supportive by renewing / enhancing the credit facilities extended to augment the company's growth plans. Some of the banks have expressed their willingness to extend additional credit facilities to meet the growth plans of the company.

Dividend

The Board of Directors recommends a cash dividend of 8% and Stock dividend of 7% from the distributable surplus of the company, subject to approval of the shareholders at the Annual General Meeting.

Looking Ahead

The Sultanate's Fiscal Budget for the year 2017 has maintained a similar outlay for developmental activities as in the previous year. The budget aims at reinforcing confidence and maintaining a steady pace of economic activity by attempting to insulate the economy from the prevailing uncertain market conditions. It is envisaged that the government would pursue ongoing projects and prioritize and channelize investment for developing the requisite infrastructure to achieve its long term diversification goals. The expansion of airports and seaports, developing road network and construction of industrial infrastructure to cater to the needs of diversion into non-oil segments are likely to be the areas of focus in the year ahead.

Though the budget focuses on austerity measures and restraining public expenditure, it lays emphasis on investment in

the development of healthcare, education and housing sectors to improve the level of services provided to the community. The government also proposes to continue to divest its stake in public utility companies to encourage private sector participation and investment to supplement the government's initiatives in the development of the economy. These measures are aimed at shielding the economy from the oil shock and providing reasonable opportunities for business to foster growth in the ensuing year.

UFC would continue its pursuit to optimize the market potential to grow its book size. The company would adopt a selective approach to grow its loan portfolio with emphasis on maintaining asset quality. The company would pursue appropriate measures and continue its focus on maintaining a balanced loan portfolio to mitigate risk. As regards funding, the company has secured adequate credit limits with banks and maintains sufficient unutilized credit limits to meet its business needs. The company's bankers have been supportive all through and are willing to extend additional credit limits to augment the company's business plans. As the business potential is expected to be modest, the market is likely to be very competitive with pressure on lending rates. Interest rates on borrowings are expected to remain high in lieu of the tight liquidity in the market and have a corresponding impact on net interest income. Our collection team would increase their efforts on reduction of impaired loans and arrest the fresh incidence of impaired loans. However, tight liquidity and the delays in settlement of dues by counter parties is a major factor that poses a challenge to restrain the level of impaired loans. The company would explore avenues for cost reduction and optimum utilization of resources to improve operational efficiency and profitability.

Human Resources

UFC has always laid emphasis on maintaining the prescribed Omanisation percentage by focusing on recruiting and nurturing Omani youth. The company adopts a practice of providing continuously training to its employees, to Omani staff in particular, to impart the required knowledge and improve their competency to grow and realize their career goals. New recruits are provided on the job training to equip them with the required skill sets to discharge the tasks assigned to them efficiently. The company provides an ideal working environment to encourage Omani staff to grow and achieve their aspirations. The company is compliant with the prescribed Omanisation percentage.

Corporate Governance

The company pursues the best corporate governance practices and is compliant with the prescribed code. The corporate governance philosophy and practices adopted by the company are contained in the report on corporate governance accompanied by the report of Statutory Auditors.

Corporate social responsibility

As part of its corporate social responsibility initiatives, UFC employs Omani youth without work experience and grooms them to become productive resources. The company consciously participates in social programs by conducting regular blood donation camps and offers employment to the physically challenged. The company also extends funding to SME's and local community contractors involved in implementing projects in interior regions and indirectly aids in providing employment opportunities and improve the standard of living of the locals living in the vicinity.

Demise of erstwhile Chairman

It is with profound grief that I note here that our erstwhile Chairman, Shaikh Sulaiman Ahmed Al Hoqani passed away on 9th January 2017. The Board of Directors and the Management acknowledge and place on record his able guidance and valuable support during his tenure as the Chairman of the company.

Acknowledgement

On behalf of the Board I wish to express our gratitude to the Central Bank of Oman, Capital Market Authority, Ministry of Commerce and Industry, Ministry of Manpower, Royal Oman Police and other Regulatory Authorities and thank them for their support and guidance. We also take this opportunity to extend our sincere thanks to our bankers, shareholders and other stakeholders for their unstinted support.

On behalf of the Board I would like to place on record my appreciation and thank the Management and staff for their individual and collective contribution to achieving operational efficiency and realizing the company's goals.

The Board of Directors and Management express their highest gratitude to His Majesty Sultan Qaboos bin Said and respectfully acknowledge his dynamic leadership and utmost caring to nurture the local economy.

May God bless all of us. Mohamed Abdulla Al Khonji Chairman