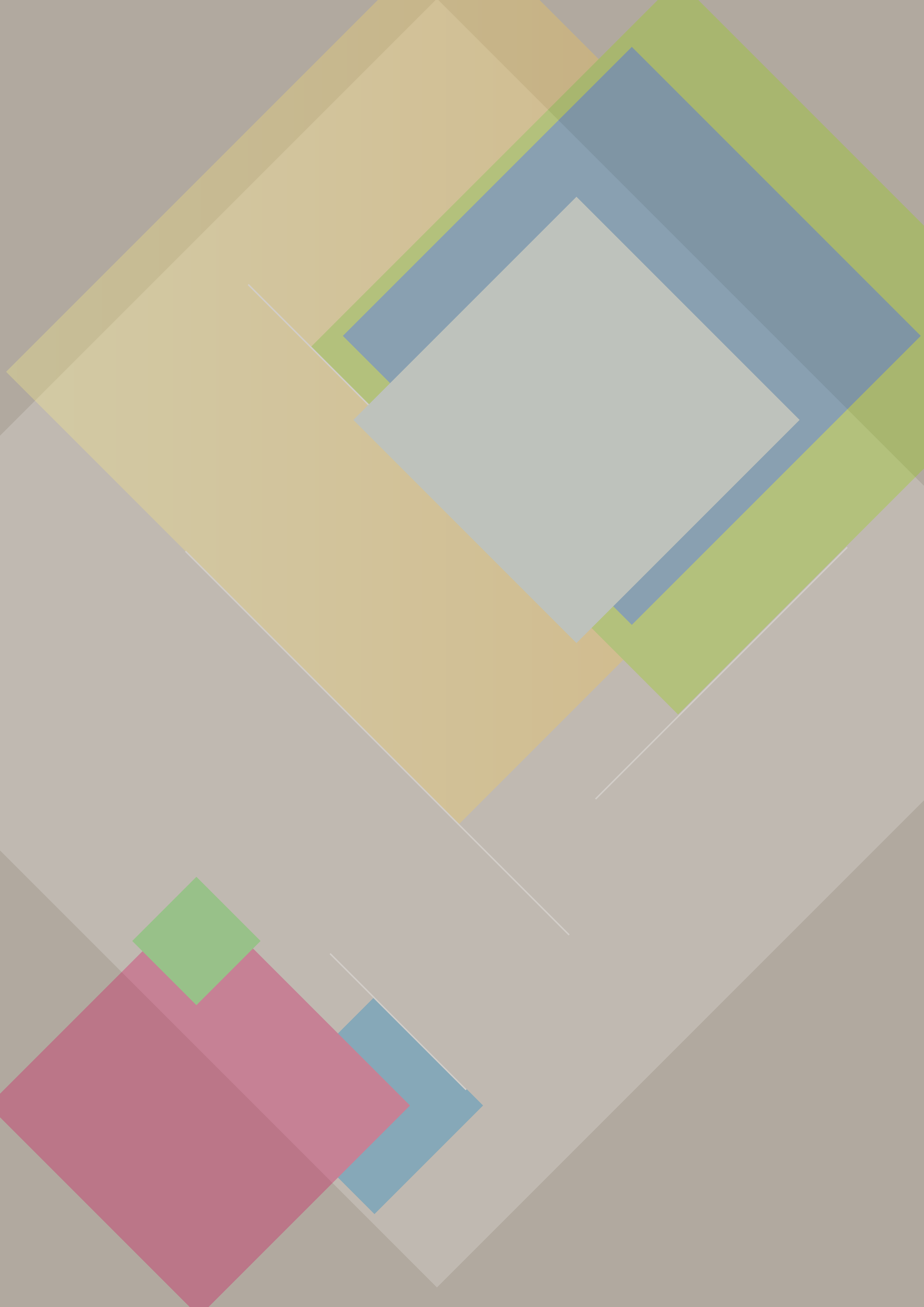
ANNUAL REPORT 2018

United Finance Company SAOG



His Majesty Sultan Qaboos bin Said

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Our Belief

- To live is to grow.
- To dream big, is to look into the future.
- To be even, our smallest client is also our biggest asset.
- Because, the more you achieve, the more we achieve.
- The more you grow the more we grow.
- And the more you succeed, the more we succeed.
- To be the best finance company, is also to be your best friend.
- To be a professional is to be a believer.
- We believe that goals are only there, to be surpassed.
- That tomorrow is ours, and today as well.
- We believe in you, and in us.
- We believe in growth for all.

Vision

To be consistently the first choice and the best finance company for our stakeholders and the community.

Mission

To create "Growth for all" by

- Providing timely and customized financial solutions to individuals, corporates and SMEs
- Enabling our employees to actualize
- Partnering with our business associates for mutual growth
- Being a responsible corporate citizen

Values

Commitment

Discipline

Teamwork

Timeliness

Empowerment

Board of Directors

Mohamed Abdulla Al Khonji
Chairman

Hassan Ihsan Naseeb Al Nasib
Deputy Chairman

Ranga Gorur
Director

Hussam Hisham Omar Bostami
Director

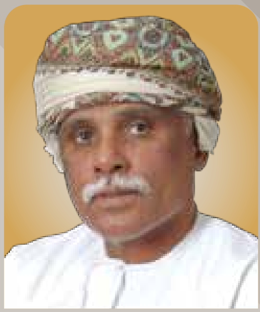
Waseem Salah Qaraeen
Director

Awad Mohammed Faraj Bamkhalif
Director

Dr. Mohammed Sulaiman
Ahmed Saeed Al Houqani
Director

Audit & Risk Management Committee

Waseem Salah Qaraeen
Chairman



Hassan Ihsan Naseeb Al Nasib
Member

Awad Mohammed
Faraj Bamkhalif
Member

Dr. Mohammed Sulaiman
Ahmed Saeed Al Houqani
Member

Executive Committee

Mohamed Abdulla
Al Khonji
Chairman

Ranga Gorur
Member

Hussam Hisham
Omar Bostami
Member

MANAGEMENT TEAM

D Stanley
Deputy Chief Executive Officer

Mansoor Mubarak Al Amri
Chief Executive Officer

K T Ramasamy
AGM - Finance & IT

Head Office

P.O. Box 3652, P.C.112, Ruwi
E-mail: ufc@ufcoman.com,
Website: www.ufcoman.com
Tel: 24577300, Fax: 24561557

Bankers

- Bank Muscat
- National Bank of Oman
- Bank Dhofar
- Bank Sohar
- Bank of Baroda
- Qatar National Bank
- Ahli Bank
- Oman Arab Bank

Branches

Branch	Tel.	Fax.
Barka	26883996	26883931
Firq	25410052	25410595
Ibra	25570234	25570235
Ibri	25692402	25688668
Mawaleh	24520611	24520613
Salalah	23289668	23289446
Sohar	26843603	26843650

Statutory Auditors

Deloitte & Touche

Mohamed Abdulla Al Khonji
Chairman

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 2018.

The Economic Environment

The year 2018 was witness to volatility in oil prices together with geopolitical issues. While the first three quarters of the year registered a fairly steady revival in oil price, it dropped significantly by the year-end. The average oil price however remained above the budgeted level and contributed to increased revenue from oil and aided in reducing the budget deficit. Considering the fluctuations in oil prices, the government was constrained to adopt a balanced approach and prioritize its spending on essential projects and conserve resources to meet exigencies. The government mobilized funds from the international markets and through local borrowing to bridge the budget deficit. Market liquidity was modest despite experiencing some volatility and the banking sector provided the required funds to support the planned developmental activities. The government's focus on diversification into non-oil segments during the past few years gained momentum and has started yielding the desired results. These segments are poised to increase their contribution to revenue over a period of time.

2018 was a tough year for FLC's as a whole and in particular for your company. The market witnessed a slowdown in implementation of developmental projects thus providing limited opportunities for expansion of business. This triggered a decline in the demand for commercial vehicles and equipment due to a dearth of avenues for deployment of assets, excess capacity, drop in hiring rates and delayed settlement of dues by contractors. The sale of private vehicles also registered a decline as a result of increase in cost of living and the conservative outlook of citizens and residents. These developments resulted in a decline in the overall market size triggering intense competition. Banks continued their penetration into vehicle financing and SME funding segment further reduced the market share of FLCs and increased competition among peers. Though there were indications of easing of market liquidity, it was volatile and pushed up borrowing cost. This resulted in finer margins and decline in net interest income. The market continued to reel under the delayed payment cycle resulting in the strained cash flow of borrowers. This resulted in a cascading effect of borrowers delaying / defaulting on their loan obligations and triggered the increase in the incidence of delinquencies during the year.

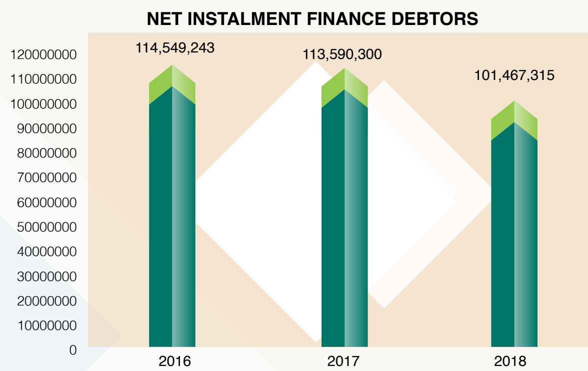
The year under review

In 2018 the company booked a modest volume of business despite the restrained market conditions. The loan book of the company as at 31 December 2018 was at RO 101.46 Million as against RO 113.59 Million as at 31st December 2017. The company recorded a net profit of RO 755,374 for the year 2018 as against RO 1.02 Million for the previous year. The decline in profit is attributed to the decline in instalment finance income and the higher provision made to cover the increase in the level of impaired loans and to comply with IFRS 9 requirements. Despite the concerted efforts on the recovery front, impaired assets increased to RO 27.37 Million as at 31st December 2018 as against RO 21.61 Million as at 31st December 2017.

The company holds cumulative provisions of RO 14.81 Million as at December 2018, including reserved interest and a Special Reserve of RO 2.37 Million to guard against delinquencies. The Management is pursuing necessary recovery measures to control and bring down the level of impaired loans in the ensuing year.

The company's fund position was comfortable throughout the year despite tight market liquidity. Banks renewed / enhanced the credit facilities extended to the company to meet its business needs. Some of the banks also expressed their willingness to extend additional credit facilities to meet the business needs of the company.

During December 2017, the company became aware of some financial irregularities at its Nizwa Branch. The company took appropriate actions by informing the relevant law enforcement agencies and related disclosures have been updated on the MSM website. The Company has also taken various corrective measures to strengthen internal controls including centralization of certain key functions of the branches at the Head Office.

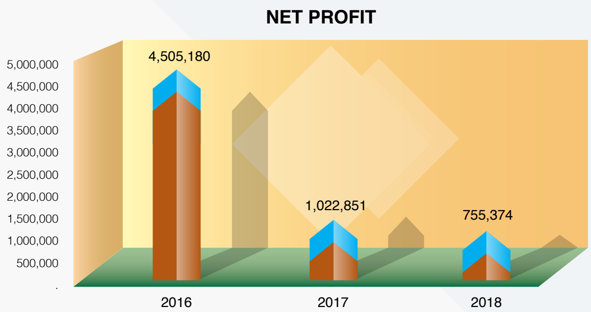


Dividend

The Board of Directors do not recommend any dividend distribution for the year 2018.

Looking Ahead

The State Budget for the year 2019 continues to focus on the long-term goals of economic diversification, curtailing expenditure and reducing the deficit. The budget aims at supporting the government's initiatives of prioritizing spending on infrastructure projects to stimulate economic growth and encouraging private sector participation in developmental projects. The budget envisages a sizable outlay for developmental activities. The government would pursue ongoing projects and prioritize its outlay on developing infrastructure to supplement its diversification plans in line with available fiscal resources and movement in oil prices. The continued thrust on diversification is aimed at creating the infrastructure to augment income streams from the non-oil segments to reduce the dependence on revenue from oil over the years to achieve sustainability.



The budget also continues its focus on achievement of social development objectives by increasing its expenditure on social welfare and basic services such as education, healthcare and housing sectors for the benefit of the citizens. The budget also aims at enhancing the skills of citizens and generate employment opportunities. Certain government projects are being earmarked for SMEs to foster avenues for self-employment. These measures are expected to stimulate economic activity and provide opportunities for business in the ensuing year. Concerted steps to reduce the delayed payment cycle through hastening the settlement of contractual dues would aid in easing liquidity and trigger the pace of economic growth.

UFC would pursue a cautious approach and optimize the market opportunities to grow its loan book with emphasis on asset quality. The company would continue its focus on maintaining a balanced loan portfolio with the objective of mitigating risk. The company has sourced adequate credit lines from banks to meet its business requirements and some of the banks are keen to extend additional credit limits to aid the company's business plans. We expect the market to provide reasonable opportunities for business but competition is likely to be intense, which could result in lending rates coming under pressure. Cost of borrowing is likely to remain high till market liquidity eases. Company would continue its concerted efforts on the collection front to control and bring down the level of impaired loans. The prevailing delayed payment cycle and its cascading effect on the cash flow of borrowers poses a challenging task. The company would continue its pursuit of achieving better operational efficiency through optimum utilization of resources.

Human Resources

UFC is compliant with the prescribed Omanisation percentage. The company recruits aspiring Omanis and provides continuous training to its employees to impart the required knowledge and skill sets to discharge the tasks assigned to them efficiently and improve their proficiency to shoulder higher responsibilities. The company provides a congenial working environment to encourage Omani staff to achieve their career goals.

Corporate Governance

The company adopts the best corporate governance practices and is compliant with the prescribed code. The corporate governance philosophy and practices pursued 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 provides employment to fresh Omani graduates and diploma holders and imparts training to groom them as productive resources and raise their standard of living. The company 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 in interior regions and indirectly aids in providing employment opportunities and a source of livelihood to the locals in the vicinity.

Acknowledgement

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.

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.

May God bless all of us.

Mohamed Abdulla Al Khonji
Chairman

Mansoor Mubarak Al Amri
Chief Executive Officer

Economic Overview

2018 started on an optimistic note with a gradual revival in oil prices. The gains extended through the first three quarters with oil prices crossing the USD 80 mark. However, the year-end witnessed a reversal of this trend with the oil prices dropping significantly. The government pursued austerity measures for rationalization of cost and resorted to prioritized spending to restrain the deficit and conserve resources to meet exigencies. Implementation of ongoing projects progressed at a subdued pace and government also selectively commissioned new projects of importance to meet the social and economic needs of the country and stimulate economic activity.

The government continued its thrust of diversification into non-oil segments by focusing on development of infrastructure to achieve its long term plan of gradually increasing the revenue flow from these segments and reduce the impact of the volatility in oil prices on the overall revenue of the economy. The diversification strategy aims at focusing on tourism, transport, logistics, manufacturing and fishing with the objective of achieving fiscal sustainability and generating opportunities for employment. Social welfare projects were also pursued through development of infrastructure in education, health and housing to address the basic social needs of the citizens.

These initiatives were complemented by private sector participation in the development projects undertaken by the government. The government sourced funds from within and outside the country to fund the budget deficit and maintain reasonable liquidity in the local market to ensure sustained economic activity. The government went ahead with implementing the various recommendations by Tanfeedh including promotion of SMEs to encourage self-employment, earmarking certain government projects for SMEs and enhancing the skills sets of the citizens.

The local money market remained volatile during 2018 resulting in high interest rates. Banks were caution and exercised restraint in extending loans in view of the tough market conditions. Fresh loans were offered at higher interest rates due to increase in their cost of borrowing. The interest rates on corporate deposits also moved up correspondingly in proportion to demand. Mobilization of funds by government through the issue of bonds also resulted in the tightening of market liquidity. The market continued to witness inordinate delays in the settlement of dues by counter parties resulting in the stressed cash flow of business entities and individuals and forcing them to default on their loan commitments.

The rational measures being adopted by the government with particular emphasis on creating the infrastructure for its long term plans to diversify into non-oil segments and reduce its dependence on revenue from oil and gas is aimed at achieving fiscal stability for sustained growth.

Industry Overview

2018 was a challenging year for FLCs. The market continued to be subdued as government spending was restrained. The demand for equipment and commercial assets declined due to limited of avenues for deployment availability of unutilized capacity. The sale of private vehicles also witnessed a decline due to the increase in the cost of living and fuel and the shift in priorities of citizens and residents alike. Banks continued making inroads in to vehicle financing and SME funding thus creating a dent in the market share and limiting avenues for expansion of credit by FLCs.

The lending rates offered by FLCs remained highly competitive in view of the intense competition among them to capture a market share. This coupled with higher interest rates paid on borrowings had a corresponding impact on net interest margins. The recurrent delays experienced by major contractors in realizing their contractual dues had a cascading effect on small and medium enterprise and individuals. This delayed payment cycle continued throughout the year and severely affected cash flows of business entities across all segments forcing them to delay / default on their loan commitments thus triggering a spurt in delinquencies.

Opportunities & Threats

The State Budget for 2019 envisages a total expenditure of RO 12.9 billion. The budget lay emphasis on achieving the long term objectives of economic diversification, social development and reducing the deficit by aligning its spending with available financial resources. We expect the government to continue its spending on ongoing developmental projects to ensure completion without delay to cater to the needs of diversification into non-oil segments and ensure the relevant payments are released on time. New projects to address and raise the level of basic social services for citizens are likely to be taken up with a sizable outlay earmarked for Education, Healthcare, Housing and Social Security and Welfare measures. These measures are aimed at opening up employment opportunities and citizens and residents and also laying the foundation for increasing revenue contribution from non-oil sectors in the long term to achieve sustained growth.

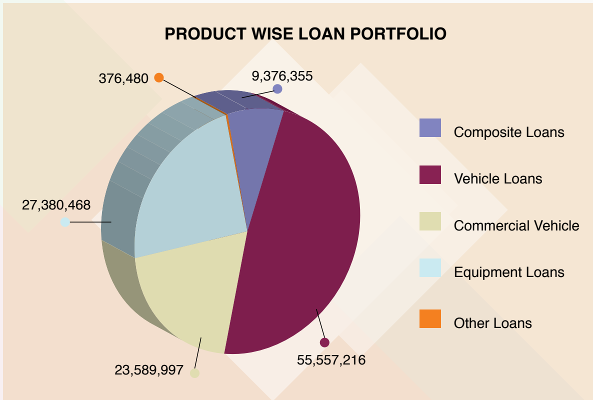
The government has based the budget for 2019 on an average oil price at USD 58 per barrel as against USD 50 in the previous year. The budget deficit would be bridged through borrowings from within and outside the country. Against the backdrop of fluctuating oil prices market liquidity is expected to remain volatile improve with scope little scope for reduction in interest rates. The planned initiatives are aimed at maintaining a modest pace of economic activity and providing reasonable business opportunities for FLCs to expand credit. If the oil price stabilizes above the budgeted level in the ensuing year, it would support the government's plans and aid in infusing the required resources for completion of developmental projects on time and also hasten the release dues to contractors and ease their strained cash flows.

On the contrary, if the oil price drops below the budgeted level, the government would be constrained to roll back its planned expenditure. This would slow down economic activity and correspondingly hinder business prospects. The delays in the settlement of contractual dues by counter parties would continue and trigger an increase in the incidence of delinquencies. Market liquidity would tighten and interest rate on borrowing would increase resulting in pressure on net interest margins.

Competition from banks by way of offering SME funding and vehicle financing at low interest rates and longer tenures coupled with in-house funding by vehicle dealers could have an impact on the business prospects of FLCs, set off intense competition and exert pressure on lending rates. Changes in regulations governing FLCs could also impact their performance.

Analysis of Segment & Product-wise performance

UFC caters to the financing needs of both the retail and corporate segments with the objective of maintaining a balanced loan portfolio. As at December 2018 its corporate exposure stood at 67% and retail exposure at 33%. Loans extended for assets used by the borrowers for income generation are classified under corporate segment, while assets used for personal purpose are classified under retail segment. The Management evaluates the loan portfolio of the company regularly, based on the repayment track record, income spreads and incidence of delinquencies and fine tunes its lending norms to mitigate risk. The credit criteria of the company are periodically reviewed based on market feedback and risk review reports to safeguard against



delinquencies. Generally, loans extended by the company are secured by the assets financed and in specific cases additional security by way of assignment of receivables, collateral assets, mortgage of property, personal guarantees of borrowers and counter parties are obtained to mitigate the risks from unforeseen developments.

Outlook

In view of the volatile market conditions, UFC would closely watch the market developments and cash in on the business opportunities as they unfold to grow its loan book. The company will continue its emphasis on improving asset quality through critical evaluation of loan proposals. Concerted efforts on the collection front will be pursued to curtail the incidence of fresh delinquencies and bring down the level of impaired loans. The company would focus on diversifying its loan book to spread risk and reduce credit concentration with the objective of achieving a balanced loan portfolio. The Management will make concerted efforts and take necessary steps to improve collection efficiency and restrain the level of impaired loans. Under the guidance of the eminent Board, the Management and staff of the company will collectively put in their best efforts to improve the company's performance in the ensuing year.

Human Resources

UFC lays emphasis on recruiting aspiring young Omanis and nurturing them to achieve their career goals. UFC imparts on the job training to enable its staff to efficiently discharge their assigned responsibilities. The company periodically reviews the training needs of its staff and conducts training programs to enhance their knowledge and skill sets and equip them to take up higher positions and achieve career growth. The company has a track record of consistently maintaining the prescribed level of Omanisation.

Risks & Concerns

Any activity is exposed to inherent risks caused by factors within and outside the organization. While some risks can be predicted with reasonable certainty, there are others that are caused by unforeseen events and developments. Since financial institutions play a complementary role in financing developmental activities to foster economic growth, they are directly affected by risks that the economy is exposed to at large. Hence it is essential that the financial institutions take consistent and pro-active measures to effectively manage risk.

The company has laid down well-defined policies and procedures for all its financial and business transactions that aid in mitigating operational risk through internal control measures. Periodic review of the performance of the loan portfolio of the company by Risk Management Department helps in evaluating the risks the company and the industry are exposed to. The department also regularly reviews the economic and market developments and their likely impact on the performance of the company & the financial services sector. The Board and Management are provided with critical data on factors that are likely to affect the business prospects, delinquency and profitability of the company based on the evaluation of available information to facilitate initiating corrective steps to mitigate risks. Risk Management also independently evaluates all credit proposals above a threshold level and highlights their views to the sanctioning authorities to facilitate an objective decision-making.

Credit Risk

Credit risk arises when a borrower fails to honour a financial commitment to the lender, thereby causing a financial loss. Periodic review of our credit evaluation process to align with the prevailing market environment conditions helps in minimizing the credit risk. Continuous monitoring of the business performance of borrowers through regular interactions, evaluation of financials and information from market sources helps the company proactively assess any signs of weakness or dilution in the creditworthiness of borrowers and take proactive measures to mitigate credit risk.

Interest Rate Risk

Interest rate risk arises on account of mismatches in the re-pricing dates of assets or liabilities. The company manages this risk by minimizing the gap in the re-pricing profile of assets and liabilities and through alternate risk management strategies. The loans extended by the company are for periods varying from one to over five years at fixed interest rates, albeit with interest variance clause. However, any re-pricing of the company's liabilities by its lenders due to economic factors would result in an interest rate risk. The company mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates to the extent possible.

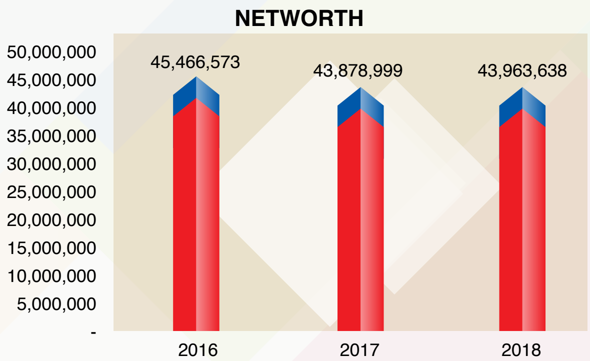
Liquidity Risk

Liquidity risk is what an entity will encounter, when it is unable to meet its obligations at any given time. The company's conservative liability management policies are designed to ensure that even in adverse situations, the company should be in a position to meet its obligations. The ALCO members review the maturity profile of asset and liabilities at monthly intervals and initiate proactive measures to counter the incidence of liquidity risk.

Internal control systems & their adequacy

UFC has a competent internal audit team in place manned by experienced professionals. The company has assigned some areas of internal audit to Crowe Horwath to complement the scope of work of the in-house audit team. In addition to the regular checks carried out, their scope of work also focuses on risk-based audit. The internal audit setup in place is appropriate to handle the level of operations of the company. The department directly reports to the Audit and Risk Management Committee, which comprises of members from the Board. The internal control systems of the company are also reviewed on a regular basis to implement checks and balances to enhance effectiveness of controls in place to avoid the incidence of errors. The policy and procedure manuals covering various areas of operation were reviewed and updated by the Management at periodic intervals in line with the changing business environment and circulated to the concerned departments, for their reference and compliance, after approval by the Board.

The role of internal audit is further strengthened through the compliance function to ensure conformity with statutory and regulatory requirements. The compliance function is independently headed by the Chief Compliance Officer who is an experienced and competent professional, that reports to Board. The compliance team comprises of the Chief Compliance Officer who is assisted by Departmental Compliance Officers in each department and at all branch offices. The compliance issues pertaining to every area of operation of the company has been defined and specific staff in each department have been identified, trained and entrusted with the responsibility of ensuring compliance with the prescribed norms. Periodic training in areas of compliance are conducted at HO and through training sessions at branches during visits by the Chief Compliance Officer to inculcate compliance culture.



Consequent to the financial irregularities detected at the Nizwa branch in December 2017, company reported the matter to law enforcement authorities and relevant updates have been made on the MSM website. Company has since taken various corrective steps including centralization of custody of customers' loan files and post-dated cheques and certain key branch functions at Head Office to tighten internal controls.

Information Technology, Disaster Recovery and Business Continuity Plan

UFC has a team of experienced and competent Information Technology professionals. The company lays emphasis on regularly reviewing and upgrading its IT infrastructure to cater to the needs of the changing business environment. The company uses state-of-the-art banking software, which is in use by many banks and financial institutions in different countries. The company maintains its Disaster Recovery infrastructure at Barka. This setup is tested periodically to ensure preparedness. With the DR infrastructure in place, the company is equipped to resume its business operations with minimum down time, in the event of any disruption. The company has in place an approved Business Continuity Plan as applicable to finance institutions.

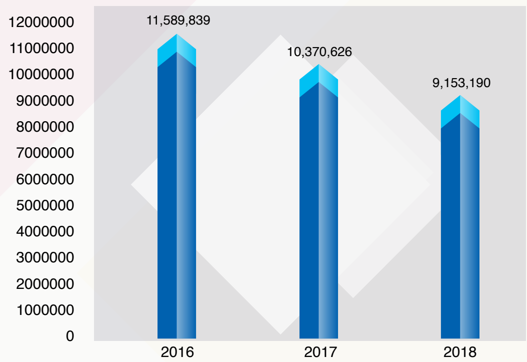
Discussion on financial & operational performance

In 2018 UFC adopted a cautious approach in view of the subdued and volatile market conditions. The company disbursed fresh loans to the tune of RO 33.9m during 2018. The loan portfolio as at December 2018 was RO 101.46m as against RO 113.59m at the end of the previous year. The company registered a net profit of RO 755k for the year 2018 as against RO 1.02m in the previous year. The main factors contributing to the reduction in net profit were the additional provisions made to cover the increase in the level of impaired loans due to the tough market conditions and the reduction in loan book size. Impaired loans as at December 2018 were RO 27.37m as against RO 21.61m as at December 2017. Despite the concerted efforts on recovery, the inordinate delays in settlement of dues by counter parties severely affected the cash flow of customers and forced them to default on their loan commitments resulting in an increase in impaired loans.

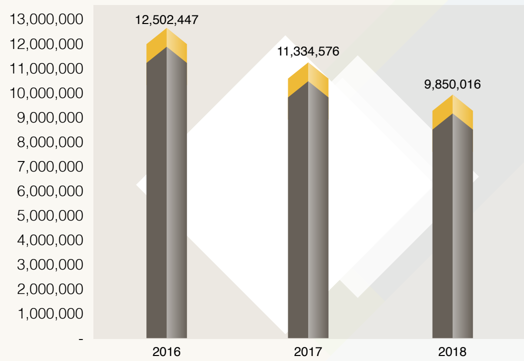
The fund position of company remained comfortable during the year despite the fluctuating liquidity in the market. While some banks renewed their credit limits, some of them increased their credit limits and were forthcoming to extend additional credit facilities to meet business needs of the company. The volatility in market liquidity pushed up the borrowing cost resulting in contraction of net interest margins.

The company provided RO 2.96m as additional impairment provision during the year in compliance with IFRS 9 requirements. Despite the tough market conditions, the company is taking necessary steps to improve collection performance and curtail the level of impaired loans in the ensuing year.

INSTALLMENT FINANCE INCOME



TOTAL INCOME



Performance at a Glance			
			(RO '000)
Particulars	2016	2017	2018
Total Assets	119,626	117,939	105,154
Share Capital	32,630	34,914	34,914
Net Worth	45,467	43,879	43,964
Finance Debtors	114,549	113,590	101,467
Total Borrowings	69,558	69,626	56,920
Gross Income	12,502	11,335	9,850
Net Finance Income	8,961	7,747	6,530
Net Profit	4,505	1,023	755

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Minaret Al Qurum Building, Level 6
Al Qurum
P.O. Box 258, Postal Code 112
Muscat
Sultanate of Oman

Tel: +968 22354300
Fax: +968 22354333
www.deloitte.com

TO THE SHAREHOLDERS OF
UNITED FINANCE COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) Circular No. E/4/2015 dated 22 July 2015 with respect to the accompanying corporate governance report of **United Finance Company SAOG** ("the Company") as at and for the year ended 31 December 2018 and its application of corporate governance practices in accordance with CMA code of corporate governance issued under Circular No. 4/2015 dated 22 July 2015 and amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standards on Related Services to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA and are summarized as follows:

1. We obtained the corporate governance report issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2. We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors with the Code, for the year ended 31 December 2018. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of **United Finance Company SAOG** to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of **United Finance Company SAOG,** taken as a whole.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
14 March 2019

ديلويت آند توش (الشرق الأوسط) وشركاه
C.R. No. 1736256
Deloitte.
0301-01
Deloitte & Touche (M.E.)& Co. LLC.

Report on Corporate Governance

I. Company's philosophy

United Finance Company SAOG (the Company) has adopted the Corporate Governance framework introduced vide CBO circular no. BM/932 dated 04.02.2002, CMA regulations vide CMA circular no. 11/2002 duly amended by circular No 1/2003 and CMA Administrative Decision No.5/2007 as part of its Disclosure Policy, Code of Corporate Governance vide CMA circular No. E/4/2015, Executive regulation of Capital Market Law. The company always believed in good governance practices and it was with pleasure that the Board and Management noted that the company was in full compliance with CBO/ CMA guidelines in this respect. Further separate paragraphs on Corporate Social Responsibility and Information Technology, Disaster Recovery and Business Continuity Plan are being included in the Annual Report.

Salient features of the governance regulations followed by the company are as under.

1. Role and responsibilities of the Board:

The regulations lay down the principles of demarcation between the role, responsibility and accountability of the Board of Directors and that of the Management in the conduct of the affairs of the company. The broad areas of Board's responsibilities are as under:

a. Policies formulation
b. Supervision of major initiatives.
c. Overseeing policy implementation and periodic review.
d. Ensuring compliance with laws and regulations.
e. Nurturing proper and ethical behavior.
f. Transparency and integrity in stakeholder reporting.
g. Approving and implementing disclosure policy and monitoring its compliance with regulatory requirements.
h. Reviewing material transactions with the related parties which are not in the ordinary course of business.
i. Nominating the members of the sub committees of the Board of Directors, specifying their roles, responsibilities and powers.
j. Selecting Chief Executive Officer and other key executives from managerial level and upwards, specifying their roles, responsibilities, powers and remuneration.
k. Evaluating the function of sub committees, Chief Executive Officer and key employees.
l. Approving interim and annual financial statements.
m. Reporting to the shareholders in annual report about the going concern status of the company.
n. Approval of a proper delegation of power to executives covering entire range of functions like administrative powers, financial powers and personnel powers…etc.
o. Prevent dealing in the shares of the company on the basis of undeclared or unrevealed information, by those who are, by virtue of their position, aware of such information.

2. Role and Responsibilities of the Management:

a. Rendering assistance in policy formulation and periodic review to the Board.
b. Responsibility for implementation: Management is responsible for implementation of banking laws, regulations and circulars issued by Central Bank of Oman and other regulatory authorities within the Sultanate of Oman.
c. Management is also responsible for implementation of Board approved policies by putting in place procedures, internal controls, risks and performance measurement methodologies, management information systems and reports to the Board.
d. Responsibility for transmitting correct and timely signals.
e. Acting professionally and expertise manifest.
f. Nurturing proper and ethical behaviour.
g. Responsibility for complete and authentic reporting to the Board.
h. Responsibility for corporate image.

The company shall adhere to the best practices in respect of appointment of directors, disclosure of company's affairs, induction of new directors, appointment of key executives and fixing their remuneration, ensuring proper written delegation of authorities and operational procedures for the conduct of affairs of the company based on the principles detailed in Annexure 1 of the CMA code of Corporate Governance and regulations.

3. Internal Control Systems and their adequacy:

The company has implemented various internal control systems in its financial operation and business operations. The Board of Directors has set up an Audit & Risk Management Committee of the Board having four of its Directors as its Members. This committee supervises the functions of the Internal Audit Department of the company and the Internal Audit Department reports directly to the Audit & Risk Management Committee of the Board maintaining its independence. There are well-defined policies and procedures for all financial and business transactions of the company. Internal Audit Department checks the financial transactions, business transactions, and regulatory compliances such as CBO and CMA systems and procedural audit and policy compliance. Further, it is ensured that no transaction in the company is completed by a single person and always a minimum of two persons are involved. Similarly, there is sufficient control exercised on computer systems, such as differentiating the development server from live server and access control of data. The company has well documented procedures for its operations to be managed with acceptable controls and the Board of Directors has found these controls to be effective.

II. Board of Directors

The company's Board of Directors consists of the following:

Executive Directors	NIL
Non-independent, Non-Executive Directors	1. Mr. Awad Mohammed Faraj Bamkhalif
Independent, Non-Executive Directors	2. Mr. Mohamed Abdulla Al Khonji (Chairman) 3. Mr. Hassan Ihsan Naseeb Al Nasib (Deputy Chairman) 4. Mr. Ranga Gorur 5. Mr. Hussam Hisham Omar Bostami 6. Mr. Waseem Salah Qaraeen 7. Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani

DIRECTORS' PROFILE

1 **Mr. Mohamed Abdulla Al Khonji**, is a Bachelor in Economics and graduated in 1994 from the University of Northern Colorado, USA. He is a major investor in several companies and real estate in Oman. Besides being the Chairman of the Board and Chairman of the Executive Committee in United Finance Company SAOG, he is Board Member and Member Executive Committee of Oman & Emirates Investment Holding Company SAOG, also at Dhofar Cattle Feed SAOG he is Board Member and member of Executive Committee, Takaful Oman Insurance SAOG he is Deputy Chairman and a member of the Executive Committee and he is the Chairman of the Board and Chairman of Executive Committee in Oman Hotels & Tourism Company SAOC. He is also Board member of Salam Air (SAOC). He is chairman of Majan fund. Apart from this he is also the Deputy Chairman of the Board & Chairman of Executive Committee at Al Khonji Group & Chairman of Al Khonji Invest LLC. and Chairman & CEO of Alkhonji Real Estate & Development LLC (Aqar).

2 **Mr. Hassan Ihsan Naseeb Al Nasib** has done Masters in Military Science. He has over 30 years' experience at the Ministry of Defence. Presently, in addition to being the Deputy Chairman of the Board and a member of the Audit & Risk Management Committee in UFC, he is the Chairman of the Board in Oman Education & Training Investment Co. SAOG and also holds the position of Chairman in Global Financial Investment Holding Co. SAOG. In the past, he has been a member of the State Council and was a board member of Ahli Bank, Computer Stationery Industry SAOG, Dhofar Cattlefeed and Oman Hotels & Tourism Company SAOG.

3 **Mr. Ranga Gorur** is holding the position of Chief Finance Officer of Oman Holdings International Co. SAOC. He is a Fellow Member of the Institute of Chartered Accountants of India as also CPA Australia, with over 41 years of professional experience. Besides being a board member and a member of the Executive Committee of UFC, he is also a board member & Chairman of the Audit Committee in Computer Stationery Industry SAOG.

4 **Mr. Hussam Hisham Omar Bostami**, holds a Bachelor of Administrative Sciences Degree from the Yarmouk University, Jordan, majoring in Accounting. He also holds a Master Degree in Banking and Financial Studies from the Arab Academy for Banking and Financial Sciences, Jordan. He is also a Certified Compliance Officer from the American Academy of Financial Management. He has worked as Internal Auditor in both Amman Bank for Investment (Jordan) and the Oman Development Bank (Oman) and also as Credit & Investment Officer in the Islamic International Arab Bank (Jordan). His last assignment was with Global Financial Investment Holdings Co. SAOG, Oman where he held the position of General Manager – Finance & Administration / Acting CEO. Besides being a board member and a member of the Executive Committee in UFC, he is also on the boards of Construction Material Industries SAOG, Gulf Stone Co. SAOG, Al Madina Logistic Services Co. SAOC and Al Sharqiyah University SAOC. Previously he was on the boards of Oman Hotels & Tourism Company SAOC and Oman Filters Industry SAOG.

5 **Mr. Waseem Salah Qaraeen**, holds a Degree in Bachelor of Economics, Administration, Sciences (Accounting) from Amman – Jordan. He also holds a master's certificate (MBA) from the Bedfordshire University in UK. He has worked as Internal Auditor in Global Financial Investment Holding Co. SAOG, Oman, Deputy General Manager – Investment Services in Global Financial Securities Services LLC., Oman, he being as a board member and Chairman of the Audit & Risk Management Committee in UFC, he is also on the boards of other SAOG company's.

6 **Mr. Awad Mohammed Faraj Bamkhalif**, a Post Graduate in Accounting and Finance from Egypt and UK, has with him over 35 years of experience in Finance and Investment field. He currently serves on Majan Capital Fund Investors' Committee on behalf of Oman & Emirates Investment Holding Co. SAOG, where he is holding the position of Chief Executive Officer for over 20 years. Mr. Awad is a board member of UFC, as also a member of the Audit & Risk Management Committee UFC. Mr. Awad also holds directorship in Financial Corporation Co. SAOG (FINCORP), Oman Hotels & Tourism Company SAOG, Oman Fiber Optic Co. SAOG. He is the Deputy Chairman of the Board in Oman Hotels & Tourism Company SAOC. Before joining Oman & Emirates Investment Holding Co. SAOG, Mr. Awad was the General Manager of Oman Aviation Services Co. SAOG / Oman Air and, prior to that, he was holding the position of Deputy Financial Controller of Port Services Corporation, Sultanate of Oman. He has been the Proprietor of Oman Audit Bureau for over 25 years, which is currently known as Baker Tilly MKM (Oman) LLC. where he is the Executive Resident Partner.

7 **Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani** is an investor, scholar and physician. He did his postgraduate training in the fields of Internal Medicine, Respiratory and Sleep Medicine at the University of Toronto from 2004 till 2010. He also obtained a Master of Public Health degree in 2012. He has accreditations and fellowships from reputed institutions in Canada and USA. He has published scientific articles and been a speaker in various forums. Currently, Dr. Mohammed is serving as a member of board directors of several companies. He also practices Medicine and conduct scientific research projects. His investment is concentrated in education and health sectors.

Details of attendance of Board Members for Board Meetings during 2018

	Board Member	Board Meeting Dates							
		29/01/2018	01/03/2018	08/03/2018	29/03/2018	25/04/2018	28/06/2018	30/07/2018	29/10/2018
1	Mr. Mohamed Abdulla Al Khonji	YES	YES	YES	YES	YES	YES	YES	YES
2	Mr. Hassan Ihsan Naseeb Al Nasib	YES	YES	YES	YES	YES	-	YES	YES
3	Mr. Ranga Gorur	YES	YES	YES	YES	YES	YES	YES	YES
4	Mr. Hussam Hisham Omar Bostami	YES	YES	YES	YES	YES	YES	YES	YES
5	Mr. Waseem Salah Qaraeen	YES	YES	YES	YES	YES	YES	YES	YES
6	Mr. Awad Mohammed Faraj Bamkhalif	YES	YES	YES	YES	YES	YES	YES	YES
7	Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani	YES	YES	-	YES	YES	YES	YES	YES

Details of attendance of Board members for AGM during 2018

	Board Member	AGM 29/03/2018
1	Mr. Mohamed Abdulla Al Khonji, Chairman	Yes
2	Mr. Hassan Ihsan Naseeb Al Nasib, Deputy Chairman	Yes
3	Mr. Ranga Gorur	Yes
4	Mr. Hussam Hisham Omar Bostami	Yes
5	Mr. Waseem Salah Qaraeen	Yes
6	Mr. Awad Mohammed Faraj Bamkhalif	Yes
7	Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani	Yes

Details of EGMs:

The company convened an EGM on 29.03.2018 and approved certain amendments to the Articles of Association of the company.

Details of Membership of Other Boards:

	Board Member	No. of other Chairmanships, Directorships and memberships of other committees (excluding UFC)	
		Chairmanship in SAOG Co.	Directorship in SAOG Co.
1	Mr. Mohamed Abdulla Al Khonji, Chairman	-	3
2	Mr. Hassan Ihsan Naseeb Al Nasib, Deputy Chairman	2	1
3	Mr. Ranga Gorur	-	2
4	Mr. Hussam Hisham Omar Bostami	-	2
5	Mr. Waseem Salah Qaraeen	-	1
6	Mr. Awad Mohammed Faraj Bamkhalif	-	1
7	Dr.Mohammed SulaimanAhmed Saeed Al Houqani	-	1

III Board Committees:

1. Brief description of terms of reference:

A. Audit & Risk Management Committee

- Considering the names of the statutory auditors in the context of their independence (particularly with reference to any other non-audit services), fee and terms of engagement and recommending its name to the board for putting before AGM for appointment.
- Reviewing audit plan and results of the audit and ensuring that auditors have full access to all relevant documents information.
- Checking financial fraud particularly fictitious and fraudulent portions of the financial statement if any. They should put in place an appropriate system to ensure adoption of appropriate accounting policies and principles leading to fairness in financial statements.
- Supervision of the internal audit function in general and with particular reference to reviewing of scope of internal audit plan for the year, reviewing the reports of internal auditors pertaining to critical areas, reviewing the efficacy of the internal auditing and reviewing as to whether internal auditors have full access to all relevant documents.
- Overseeing the adequacy of the internal control system through the regular reports of the internal and external auditors. They may appoint external consultants if the need arises.
- Overseeing the financial statements in general and with particular reference to review of annual and quarterly financial statements before issue, review of qualifications in the draft financial statements and discussion of accounting principles. In particular, change in accounting policies, principles and accounting estimates in comparison to previous year, any adoption of new accounting policy, any departure from International Accounting Standards (IAS) and non-compliance with disclosure requirements prescribed by CMA should be critically reviewed.
- Serving as a channel of communication between external auditors and the board and also internal auditors and the board.
- Reviewing risk management policies and looking into

the reasons of defaults in payment obligations of the company, if any.

- Reviewing proposed specific transactions with related parties for making suitable recommendations to the board and setting rules for entering into small value transactions with related parties without obtaining prior approval of audit committee and the board.
- Review and recommend suitable course of action to the Board or Management as deemed fit on reports submitted by Internal Auditor or an external / statutory authority on suspected frauds, if any, committed by staff members and / or borrowers.
- Review and ensure that ethical practices are followed.
- Review and ensure that the company complies with all legal requirements.
- Determine that internal systems and controls are adequate and effective.
- Ensure that institutional credit policies and procedures are followed.
- Recommend the selection of the external auditor in consultation with the Management.
- Review that the published financial statements are not misleading.
- Assess issues relating to conflicts of interest and related party transactions and to ensure compliance with regulatory norms.
- Evaluate in general the adequacy and reliability of information available for Management decisions.
- Review with the Company's counsels any legal matters that could have a material impact on the Company's financial statements, the Company's compliance with applicable laws and regulations and enquiries received from regulators or governmental agencies.
- The audit committee shall hear the views of internal and external auditors separately, at least once every year, without the presence of the Management.
- The audit committee shall hear the views of the external auditors before forwarding the annual accounts to the board for approval.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Approve all audit and non-audit services.

B. Executive Committee

- Decide on all proposals exceeding management authority as per the Authorities Manual.
- Review Credit Policy and new Products and make recommendations to Board.
- Review management analysis for reasons, review follow up adequacy, discuss measures for avoidance of similar cases in future in relation to Non-performing accounts. It is expected that NPAs will be reviewed by this committee as specified under Authorities Manual.
- Review periodically, at least once in six months, the adequacy of provisions based on management reports.
- Submit to the Board an annual plan of action.
- Review the nominations for board membership received by the company and make suitable recommendations to the Board for further appropriate action, as per the local regulations / laws.
- Identify and nominate, for the approval of the Board and ultimately the shareholders, candidates to fill Board vacancies as and when they arise as well as putting in place plans for succession, in particular with respect to the Chairman of the Board and the Chief Executive Officer.
- Prepare the detailed job description of the roles and responsibilities for the directors including the Chairman.
- Review regularly the Board structure, size, composition, competencies and make recommendations to the Board for adjustments that are deemed necessary, in order to ensure an adequate size and a well-balanced composition of the Board and to ensure that the required number of the Board members are independent, which will ensure formation of its committees as per regulation.
- Consider succession and emergency planning, taking into account the challenges and opportunities facing the Company and the skills and expertise therefore needed on the Board, reporting on these matters to the Board regularly.
- Review the leadership needs of the organisation, with a view to ensuring the continued ability of the Company to compete effectively in the market place.
- Devise a procedure for periodic performance evaluation of the Board of Directors.
- Evaluate the balance of skills, knowledge and experience on the Board, and in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment, before a director's appointment is made by the Board,
- Ensure the development of guidelines for selecting candidates for election / re-election to the Board, or to fill temporary vacancies on the Board; and
- Review terms of reference periodically for its effectiveness and recommend any changes to the Board, if required.
- Formulate "Succession Plan" for key senior managerial positions to ensure continuity in the Management, taking into account the challenges and opportunities facing the Company
- Prepare succession policy or plan for the Board or at least for the Chairperson
- Determine board remuneration, sitting fees etc., based on performance of the Board in compliance with statutory limits
- Review and recommend the strategy and annual budgets to the Board.
- Review, recommend new products, opening of new branches, strategic alliances etc., to the Board
- Take into account future expansion and recommend construction of new building, including acquiring

property to accommodate future needs.

- Formulate and recommend company's CSR strategy and plan and recommend it to the Board, in compliance with AOA and Code of Corporate Governance. Also, evaluate the effects of CSR initiatives
- Review Disaster Recovery and Business Continuity Plan of the company and apprise the changes, if any, to the Board. In case of disaster, provide guidance to the Management for smooth recovery and restoration of normalcy in operations.
- As per Board's direction, to obtain legal counsel, in matters of legal proceedings by / against the company for any matter, pursue the matters, and apprise the Board on proceedings.
- Provide feedback, concerns and directions to the Management for performance, without actively participating in the operations.
- Encourage Management in promoting ethical behaviour in the company. Approve Code of Ethics to be followed by board members and staff.
- Ensure that compliance culture is encouraged at all levels in the Management.

2 Details of Audit & Risk Management Committee and Executive Committee activities during the year:

A. Details of attendance of Board Members for Audit & Risk Management Committee Meetings during 2018.

Date	Name of the Member and their representation in the Committee			
	Chairman of the committee	Member of the committee	Member of the committee	Member of the committee
	Mr. Waseem Salah Qaraeen	Mr. Hassan Ihsan Naseeb Al Nasib	Mr. Awad Mohammed Faraj Bamkhalif	Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani
29.01.2018	YES	YES	YES	YES
01.03.2018	YES	YES	YES	YES
29.03.2018	YES	YES	YES	YES
25.04.2018	YES	YES	YES	YES
30.07.2018	YES	YES	YES	YES
29.10.2018	YES	YES	YES	YES

B. Details of attendance of Board Members for Executive Committee Meetings during 2018

Date	Name of the Member and their representation in the Committee		
	Chairman of the committee	Member of the committee	Member of the committee
	Mr. Mohamed Abdulla Al Khonji	Mr.Ranga Gorur	Mr. Hussam Hisham Omar Bostami
23.01.2018	YES	YES	YES
25.04.2018	YES	YES	YES
29.07.2018	YES	YES	YES
10.09.2018	YES	YES	YES
28.10.2018	YES	YES	YES
12.12.2018	YES	YES	-

IV Process of Nomination of the Directors:

The company follows the provisions of the Commercial Companies Law, CMA guidelines and circulars that are relevant to the nomination of the Directors and Annual General Meetings and the guidelines from the Central Bank of Oman in respect of nomination of the members of the Board of Directors. Within these guidelines the company makes an effort to ensure that the composition of the Board provides people with competencies and skills to motivate high performing talent, strategic insight, expertise in finance, good understanding of management, ability for crisis management and industry specific experience.

V Remuneration of directors and 5 top officials of the company:

A. The Board of Directors has been paid an amount of RO 70,000 as sitting fees.

S. No.	Board Members	Sitting Fees Paid R.O.
1	Mr. Mohamed Abdulla Al Khonji, Chairman	10,000
2	Mr. Hassan Ihsan Naseeb Al Nasib	10,000
3	Mr. Ranga Gorur	10,000
4	Mr. Hussam Hisham Omar Bostami	10,000
5	Mr. Waseem Salah Qaraeen	10,000
6	Mr. Awad Mohammed Faraj Bamkhalif	10,000
7	Dr.Mohammed Sulaiman Ahmed Saeed Al Houqani	10,000
		70,000

B. During the year the company incurred an annual cost, including variable component of RO 354,963 in respect of its 5 top officials.

The employment contracts of three Management members are renewable every two years and severance notice period is three months. End of service benefits is payable as per Omani Labour Law.

The employment contracts of two officials are renewable every two years and severance notice period is one month. End of service benefits is payable as per Omani Labour Law.

C. Measuring Board Performance

In accordance with the Fourth Principle of the Corporate Governance of Public Shareholding Companies issued by the Capital Market Authority, the annual general assembly meeting held on 29/3/2019 approved the criteria for measuring the performance of the Board of Directors of the company. Accordingly, an independent evaluator "Abu Timam Grant Thornton" was appointed to measure the performance of the Board according to the approved criteria in the said meeting and to present a performance report to the shareholders at the AGM meeting for the financial year ended 31/12/2018.

VI Details of non-compliance by the company:

The company had no occasion to attract penalties or strictures from Muscat Securities Market and Capital Market Authority during the last 3 years. During 2018 and 2017 the company had no occasion to attract penalties from Central Bank of Oman. The company paid RO 4,000/- in 2016 as penalty to the Central Bank of Oman in respect of compliance with certain regulatory matters.

VII Means of communication with the shareholders and investors:

- Quarterly results of the company are published in two leading newspapers in Arabic and English. Quarterly results in electronic format are also provided to Muscat Securities Market and are uploaded on its website and the same are available on the company's website www.ufcoman.com.
- Management Discussion and Analysis report forms part of the Annual Report.

VIIIA. Market Price Data:

2018/ Month	High R.O.	Low R.O.	No. of days traded	Financial Sector MSM Index (Monthly Average)
January	0.146	0.130	14	7,409.000
February	0.130	0.124	7	7,366.290
March	0.123	0.111	3	7,140.520
April	0.120	0.105	8	7,264.650
May	0.114	0.105	8	7,154.880
June	0.107	0.104	3	7,067.880
July	0.100	0.097	2	6,719.185
August	0.100	0.095	2	6,917.485
September	0.102	0.082	16	7,018.590
October	0.092	0.091	1	6,917.840
November	0.000	0.000	0	6,882.705
December	0.094	0.082	4	6,829.970

Shares are quoted based on RO 0.100 as par value

B. Distribution of shareholding:

SHAREHOLDERS (5% and ABOVE) AS ON 31.12.2018					
Sl. No.	Name	Nationality	Class of Equity	No. of Shares	%
1	Oman Hotels &Tourism Company SAOC	Omani	Ordinary	117,234,793	33.58%
2	Global Financial Investment Holding Company	Omani	Ordinary	44,153,362	12.65%
3	Al Saud Company Ltd - Ubar Financial Investment	Emirati	Ordinary	26,331,515	7.54%
4	Oman Holding International Company SAOC	Omani	Ordinary	19,731,704	5.65%
	Total			**207,451,374**	**59.42%**
	Others			**141,693,036**	**40.58%**
	Grand Total			**349,144,410**	**100%**

IX Professional profile of Deloitte: Statutory Auditor

Profile of Statutory Auditors

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X Details of audit & other fees for the year 2018

Audit & Other Fees	RO.32,250

XI Acknowledgement by Board of Directors

The Board acknowledges that:

- The financial statements have been prepared consistently in accordance with the International Financial Reporting Standards (IFRS) as applicable to the Company to fairly reflect the financial position of the Company and its performance during the relevant financial period.
- Financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation, that the Company has adequate resources to continue in operational existence for the foreseeable future.
- It has reviewed the Company's systems of internal controls and risk management for the adequacy and integrity of those systems. It should be noted, however, that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. In addition, it should be noted that any system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Mohamed Abdulla Al Khonji
Chairman

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Minaret Al Qurum Building, Level 6
Al Qurum
P.O. Box 258, Postal Code 112
Muscat
Sultanate of Oman

Tel: +968 22354300
Fax: +968 22354333
www.deloitte.com

Independent auditor's report
to the shareholders of
United Finance Company SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **United Finance Company SAOG** ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements set out in pages 7 to 73, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Independent auditor's report to the shareholders of United Finance Company SAOG (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of investment in finance debtors Net investment in instalment finance debtors comprise 96% of the Company's total assets (as explained in note 11 to the financial statements). During the year the Company has adopted IFRS 9 - Financial Instruments and calculated its impairment allowance for instalment finance debtors as per the requirement of IFRS 9. IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as: • determining criteria for significant increase in credit risk (SICR); • choosing appropriate models and assumptions for the measurement of ECL; • establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and • establishing portfolios of similar financial assets for the purposes of measuring ECL. The audit team assessed this as a key audit matter due to the complexity, subjectivity and judgments involved in calculation of ECL and its impact on the financial statements of the Company.	Our audit procedures include evaluating the design and testing the implementation of operating effectiveness of the key controls over impairment data and calculations. These controls care as follows: • the identification of loans and advances which requires impairment; • the data transfer from source systems to the ECL model and it's output to the general ledger; • the calculation of the allowance for ECL; and • the governance process of finance downgrading, including the continuous re-assessment of the appropriateness of assumptions used in the ECL model. Deloitte's internal experts were engaged to perform audit procedures on the application of IFRS 9. With respect to ECL methodology and models, our procedures included the following: • We checked the appropriateness of the Company's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; • For a sample of exposures, we checked the appropriateness of staging; • We checked and understood the key data sources and reasonableness of factors and assumptions used in the ECL model including, but not limited to, the Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) methodology documents; • We checked the calculation of PD, LGD and EAD used in the ECL calculation, including the adequacy of collateral; • For forward looking assumptions used by management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information; • We checked the completeness of instalment finance debtors, off balance sheet items and other financial assets included in the ECL calculation as at 31 December 2018 and tested the arithmetical accuracy of the ECL calculated by the model; • We assessed whether the financial statement disclosures are compliant with IFRS 9 requirements; • We checked the consistency of various inputs and assumptions used by the management in the ECL model; • We checked the appropriateness of opening balance adjustments; and • Where relevant, we used our Information System specialists to gain comfort on data integrity.

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Independent auditor's report to the shareholders of United Finance Company SAOG (continued)

Other information

The Board of Directors (the Board) is responsible for the other information. The other information comprises the Chairman of Board of Directors' Report, Corporate Governance report and the Management Analysis Report which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors for the financial statements

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the disclosure requirements issued by the Capital Market Authority, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Independent auditor's report
to the shareholders of
United Finance Company SAOG (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Deloitte.

Independent auditor's report
to the shareholders of
United Finance Company SAOG (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

From the matters communicated with the Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Further, we report that the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the disclosure requirements issued by the Capital Market Authority.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
14 March 2019

Signed by
Anis Sadek
Partner

دیلویت آند توش (الشرق الأوسط) وشركاه ش.م.م
C.R. No. 1736256
Deloitte.
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Deloitte & Touche (M.E.)& Co. LLC.

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

2018 US$	2017 US$		Notes	2018 RO	2017 RO
23,774,519	26,936,691	Installment finance income		**9,153,190**	10,370,626
(6,812,239)	(6,813,343)	Interest expense		**(2,622,712)**	(2,623,137)
16,962,280	20,123,348	**Net installment finance income**		**6,530,478**	7,747,489
1,809,938	2,503,766	Other income	5	**696,826**	963,950
(8,456,478)	(8,677,699)	Operating expenses	6	**(3,255,744)**	(3,340,914)
(325,468)	(320,106)	Depreciation	7	**(125,305)**	(123,241)
(7,682,026)	(10,503,714)	Impairment on installment finance debtors – net	11	**(2,957,580)**	(4,043,930)
2,308,246	3,125,595	**Profit before tax**		**888,675**	1,203,354
(346,236)	(468,839)	Income tax expense	8	**(133,301)**	(180,503)
1,962,010	2,656,756	**Profit and total comprehensive income for the year**		**755,374**	1,022,851
0.006	0.008	**Basic and diluted earnings per share**	21	**0.002**	0.003

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position

at 31 December 2018

2018 US$	2017 US$		Notes	2018 RO	2017 RO
		ASSETS			
6,455,078	6,569,616	**Property and equipment**	7	**2,485,205**	2,529,302
25,343	25,343	Deferred tax asset	8	**9,757**	9,757
649,351	649,351	Deposit with the Central Bank of Oman	9	**250,000**	250,000
1,439,351	1,439,351	Investment securities	10	**554,150**	554,150
263,551,467	295,039,740	Installment finance debtors	11	**101,467,315**	113,590,300
181,987	195,116	Other receivables and prepaid expenses	12	**70,065**	75,120
824,228	2,416,361	Cash and bank balance	13	**317,328**	930,299
273,126,805	306,334,878	**Total assets**		**105,153,820**	117,938,928
		EQUITY AND LIABILITIES			
		Capital and reserve			
90,686,860	90,686,860	Share capital	14	**34,914,441**	34,914,441
1,372,473	1,372,473	Share premium reserve	15	**528,402**	528,402
12,352,114	12,155,914	Legal reserve	16(a)	**4,755,564**	4,680,027
6,153,218	6,153,218	Special reserve	16(b)	**2,368,989**	2,368,989
764,971	764,971	Foreign currency reserve	16(c)	**294,514**	294,514
2,861,631	2,837,990	Retained earnings		**1,101,728**	1,092,626
114,191,267	113,971,426	**Equity**		**43,963,638**	43,878,999
		Liabilities			
124,728,444	158,120,462	Borrowings	18	**48,020,451**	60,876,378
23,116,883	22,727,273	Corporate deposits	19	**8,900,000**	8,750,000
9,714,606	10,005,657	Creditors and other payables	20	**3,740,123**	3,852,178
1,375,605	1,510,060	Taxation	8	**529,608**	581,373
158,935,538	192,363,452	Total liabilities		**61,190,182**	74,059,929
273,126,805	306,334,878	**Total equity and liabilities**		**105,153,820**	117,938,928
0.327	0.326	**Net assets per share**	22	**0.126**	0.126

Chairman

Director

The accompanying notes form an integral part of these financial statements

Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital RO	Share premium reserve RO	Legal reserve RO	Special reserve RO	Foreign currency reserve RO	Retained earnings RO	Total RO
At 1 January 2017	32,630,319	528,402	4,577,742	2,368,989	294,514	5,066,607	45,466,573
Profit and total comprehensive income for the year	-	-	-	-	-	1,022,851	1,022,851
Transfer to legal reserve	-	-	102,285	-	-	(102,285)	-
Cash dividend	-	-	-	-	-	(2,610,425)	(2,610,425)
Stock dividend	2,284,122	-	-	-	-	(2,284,122)	-
At 1 January 2018	**34,914,441**	**528,402**	**4,680,027**	**2,368,989**	**294,514**	**1,092,626**	**43,878,999**
Impact of adopting IFRS 9 at 1 January 2018 (Note 28)	**-**	**-**	**-**	**-**	**-**	**(670,735)**	**(670,735)**
Restated balance at 1 January 2018	**34,914,441**	**528,402**	**4,680,027**	**2,368,989**	**294,514**	**421,891**	**43,208,264**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**755,374**	**755,374**
Transfer to legal reserve	**-**	**-**	**75,537**	**-**	**-**	**(75,537)**	**-**
At 31 December 2018	**34,914,441**	**528,402**	**4,755,564**	**2,368,989**	**294,514**	**1,101,728**	**43,963,638**

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 RO	2017 RO
Profit before taxation		**888,675**	1,203,354
Adjustments for:			
Depreciation	7	**125,305**	123,241
Loss on property and equipment written off/sold		**97**	-
Provision for impairment on installments finance debtors – net	11	**2,957,580**	4,043,930
Impact of adopting IFRS 9 at 1 January 2018		**(670,735)**	-
End of service benefits charge for the year	20 (a)	**62,100**	65,212
Operating profit before changes in operating assets and liabilities		**3,363,022**	5,435,737
Installment finance debtors:			
Disbursements		**(33,897,599)**	(47,775,129)
Principal repayments received		**43,063,004**	44,690,142
Other receivables and prepayments		**5,055**	26,191
Creditors and other payables		**(127,273)**	230,671
End of service benefits paid	20 (a)	**(46,882)**	(16,240)
Income taxes paid	8	**(185,066)**	(632,203)
Net cash from operating activities		**12,174,261**	1,959,169
Investing activities			
Purchase of property and equipment	7	**(81,305)**	(41,127)
Financing activities			
Long-term loans received	18	**29,000,000**	37,300,000
Long-term loans repaid	18	**(42,576,877)**	(38,256,746)
Net change in short-term loans	18	**1,500,000**	4,500,000
Corporate deposits – net	19	**150,000**	(4,602,525)
Dividends paid	17	**-**	(2,610,425)
Net cash used in financing activities		**(11,926,877)**	(3,669,696)
Net change in cash and cash equivalents		**166,079**	(1,751,654)
Cash and cash equivalents at beginning of the year		**(209,769)**	1,541,885
Cash and cash equivalents at end of the year	13	**(43,690)**	(209,769)

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

1 Legal status and principal activities

United Finance Company SAOG ("the Company") is an Omani Joint Stock Company, licensed by the Central Bank of Oman and registered under the Commercial Companies Law of the Sultanate of Oman. The Company is principally involved in providing vehicle and equipment financing and is also licensed to provide composite loans, bridge loans, hire purchase, debt factoring and financing of receivables and leasing in the Sultanate of Oman. The Company has its Head Office in Muscat with branches in Ibra, Ibri, Firq, Sohar, Salalah, Nizwa, Barka and Mawelah, all located within the Sultanate of Oman. The registered address of the Company is P O Box 3652, Postal Code 112, Ruwi, Sultanate of Oman. The Company has a primary listing on the Muscat Stock Exchange.

2. Adoption of new and revised international financial reporting standards (IFRS)

2.1 New and amended IFRS Standards that are effective for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these financial statements.

The Company applies, for the first time, IFRS 9 Financial Instruments (as revised in July 2014) and IFRS 15 Revenue from contracts with customers) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The impact of the initial application of these standards is disclosed in Note 28 to these financial statements.

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

New and revised IFRS	**Summary**
IAS 40 *(amendments) Transfers of Investment Property*	The Company has adopted the amendments to IAS 40 Investment Property for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

2. Adoption of new and revised international financial reporting standards (IFRS)

2.1 New and amended IFRS Standards that are effective for the current year

New and revised IFRS	Summary
IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions	The Company has adopted the amendments to IFRS 2 for the first time in the current year. The amendments clarify the following: 1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments. 2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature. 3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: (i) the original liability is derecognised; (ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and (iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.
Annual Improvements to IFRS Standards 2014 - 2016 Cycle	The Company has adopted the amendments to IAS 28 included in the Annual Improvements to IFRS Standards 2014-2016 Cycle for the first time in the current year
Amendments to IAS 28 Investments in Associates and Joint Ventures	The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue). The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

2. Adoption of new and revised international financial reporting standards (IFRS)

2.2 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 16 *Leases*	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 *Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing costs.*	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments in IFRS 9 *Financial Instruments relating to prepayment features with negative compensation.*	1 January 2019
Amendment to IAS 19 *Employee Benefits relating to amendment, curtailment or settlement of a defined benefit plan.*	1 January 2019
Amendments in IAS 28 *Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures.*	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 *Business Combinations relating to definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8 *relating to definition of material*	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 *Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.*	Effective date deferred indefinitely. Adoption is still permitted.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

IFRS 16 *Leases*

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The Company is in the process of assessing the potential impact of IFRS16 on its financial statements.

2. Adoption of new and revised international financial reporting standards (IFRS)

2.2 New and revised IFRS in issue but not yet effective and not early adopted

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements

Amendments to IAS 1 and IAS 8 relating to definition of material

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements

3. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), applicable regulations of the Central Bank of Oman, applicable requirements of the Commercial Companies Law and the Capital Market Authority of the Sultanate of Oman.

Basis of preparation

The financial statements are prepared under the historical cost convention and modified to include the application of fair value measurements that are required or allowed by relevant accounting standard.

The statement of financial position is presented in order of liquidity, as this presentation is more appropriate to the Company's operations.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. In the process of applying the Company's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements as disclosed in note 4.

3. Significant accounting policies (continued)

Foreign currency transactions

Functional and presentation currency

The accounting records are maintained in Rial Omani which is the functional and presentation currency for these financial statements. The United States Dollar amounts shown in the statement of comprehensive income and the statement of financial position have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Recognition of interest income and expenses

Policy applicable from 1 January 2018

Effective interest rate
Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount
The 'amortised cost' of a financial asset or a financial liability is the amount at which the financial asset or the financial liability is measured on initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance or impairment allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense
In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see significant accounting policies in note 3.

3. Significant accounting policies (continued)

Recognition of interest income and expenses (continued)

Presentation
Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

Policy applicable for 2017 comparatives

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The difference between the aggregate finance contract receivable and the cost of the financed assets plus initial direct costs is recorded as unearned finance income. Initial direct costs include amounts that are incremental and directly attributable to negotiating and arranging finance. They exclude general overheads such as those incurred by sales and marketing team.

Interest, which is doubtful of recovery, is unrecognised and excluded from income until the relevant loan becomes regular. Penal charges and other fees are recognised when received in cash.

Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date. Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation. Cost represents purchase cost together with any incidental costs of acquisition. Land is not depreciated. The cost of property and equipment is depreciated on the straight-line method over the estimated useful lives of the assets. The estimated useful lives are:

	Years
Motor vehicles	3
Furniture and office equipment	3 - 6
Buildings	2 - 20

3. Significant accounting policies (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount. Gains and losses on disposals of property and equipment are determined by reference to their carrying amounts and are recognised in the statement of comprehensive income.

Financial assets and financial liabilities

Policies applicable from 1 January 2018

i) Recognition and initial measurement

The Company initially recognises all regular way purchase and sale of financial assets on the date at which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification

The Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Policies applicable from 1 January 2018 (continued)

ii) Classification (continued)

Business model assessment
The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Policies applicable from 1 January 2018 (continued)

ii) Classification (continued)

Investment securities

The ‘investment securities’ caption in the statement of financial position includes:

- equity investment securities designated as at FVOCI.

The following gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

The Company elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Reclassifications

Financial assets
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial Liabilities
The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

Trade and settlement date accounting
Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Policies applicable from 1 January 2018 (continued)

iii) Derecognition

Derecognition of financial assets

A financial asset (in whole or in part) is derecognised where:

i. the right to receive cash flows from the asset have expired; or
ii. the Company has transferred it rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and
iii. either (i) the Company has transferred substantially all the risks and rewards of ownership, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control over the asset or a proportion of the asset.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

Installment finance debtors

Policies applicable from 1 January 2018

'Instalment finance debtors' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Policies applicable from 1 January 2018 (continued)

(v) Impairment

The Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following for which they are measured as 12 month ECL.

- other financial instruments (including lease receivables) on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- *financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Company expects to recover.

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Policies applicable from 1 January 2018 (continued)

(v) Impairment (continued)

Credit-impaired financial assets (continued)
Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: As a provision under creditors and other payables
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Policies applicable from 1 January 2018 (continued)

(v) Impairment (continued)

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Policies applicable for 2017 comparatives

Classification of financial assets
The Company classifies its financial assets as loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise installment finance debtors and cash and cash equivalents in the statement of financial position.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are initially recognised at fair value including transaction costs. Such financial assets are subsequently carried at fair value, unless fair value cannot be reliably determined in which case these financial assets are measured at cost less impairment. Changes in the fair value of available-for-sale financial assets are recognised in the statement of other comprehensive income as as "cumulative changes in fair value".

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

On derecognition or impairment, the cumulative gains or losses previously reported as "cumulative changes in fair value" within equity, is included in the statement of comprehensive income.

Trade and settlement date accounting
Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Policies applicable for 2017 comparatives (continued)

Derecognition of financial assets

A financial asset (in whole or in part) is derecognised where:

i. the right to receive cash flows from the asset have expired; or

ii. the Company has transferred it rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and

iii. Either (i) the Company has transferred substantially all the risks and rewards of ownership, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control over the asset or a proportion of the asset.

Installment finance debtors

Installment finance debtors are stated at amortised cost using effective interest rate method less any amounts written off, provision for impairment and unrecognised contractual income.

Impairment of financial assets

Assets carried at amortised cost

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognised in the statement of comprehensive income.

For installment finance debtors carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehenisve income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the impairment loss provision.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's risk exposures that consider credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Policies applicable for 2017 comparatives (continued)

Assets carried at amortised cost (continued)
Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the periods on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from period to period (such as changes in, property prices, payment status, repeated requests for reschedulement or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a receivable is uncollectible, it is written off against the related provision for impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised under other income in the statement of comprehensive income

Renegotiated installment finance debtors
Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due subject to regulatory guidance. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Available-for-sale investments
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

Derivative financial instruments and hedge accounting
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates its interest rate swaps derivative as cash flow hedge to hedge the variable interest rate fluctuations on long-term borrowings.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the statement of comprehensive income. Amounts accumulated in equity are routed through income statement in the period when the hedged items affects the statement of comprehensive income. The gain or loss relating to the effective portion of interest rate swaps is recognised in the statement of comprehensive income within interest expense. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time, is immediately recognised in the statement of comprehensive income.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Cash and cash equivalents
All bank balances with maturity of three months or less from the date of placement are considered to be cash equivalents.

Borrowings and corporate deposits
Borrowings and corporate deposits are recognised initially at fair value, net of transaction costs incurred.

After initial recognition, interest bearing borrowings and corporate deposits are subsequently carried at amortised cost using the effective interest method.

End of service benefits and leave entitlements
End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 and its amendments. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in creditors and other payables in the statement of financial position.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991, are recognised as an expense in the statement of comprehensive income as incurred.

Creditors and other payables
Creditors and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

Provisions
Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Financial guarantees
In the ordinary course of business, the Company's bankers issue financial guarantees to the Company's customers on behalf of the Company that are stated as contingent liabilities in the Companys' financial statements till it is cancelled or expires. In the event the bank invokes the guarantee, the Company pays the guarantee amount and debits the customers account, which would form part of the main statement of financial position.

Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the year in which the dividends are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Committee that makes strategic decisions.

Earnings per share
The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Fair value estimation
For investments traded in an active market, fair value is determined by reference to quoted market bid prices. The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Unquoted equity investments are held at cost.

Directors' remuneration
The Directors' remuneration is governed as set out in the Memorandum of Association of the Company, the Commercial Companies Law and regulations issued by the Capital Market Authority.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

4 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed by the Company to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are readily apparent from other sources. Actual results may differ from these estimates.

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

Classification of investment securities
On acquisition of an investment security, the Company decides whether it should be classified as fair value through profit or loss or fair value through other comprehensive income or financial assets to be measured at amortized cost. The Company follows the guidance of IFRS 9 on classifying its investments.

Business models and SPPI assessment
As well as ECL, determining the appropriate business models and assessing the SPPI requirements for financial assets may require significant accounting judgement and have a significant impact on the financial statements. Details of the Company's classification of financial assets and liabilities are given in significant accounting policies in note 3.

Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 27, which also sets out key sensitivities of the ECL to changes in these elements.

4 Critical accounting estimates and judgements (continued)

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Company in the above areas is set out in note 27.

Impairment losses on installment finance debtors for 2017 comparative
The Company reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required.

The Company reviews its installment finance debtors to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of debtors before the decrease can be identified with an individual debtor in that portfolio. This takes into consideration factors such as any deterioration in industry, collateral value and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Deferred tax asset
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Income tax
The Company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments. The amount of such provisions is based on factors such as experience of previous tax assessments and interpretations of tax regulations by the Management and the responsible tax authority.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a certain valuation techniques, derived from observable market data where possible. Where observable market data are not available, judgment is used to establish fair values.

Useful lives of property and equipment
Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

5 Other income

	2018 RO	2017 RO
Bad debts recovered	**330,978**	554,557
Penalties charged	**149,451**	133,382
Documentation fees	**34,113**	67,181
Foreclosure charges	**76,427**	68,881
Dividend income	**-**	30,593
Insurance commission income	**87,134**	81,691
Others	**18,723**	27,665
	696,826	963,950

6 Operating expenses

	2018 RO	2017 RO
Staff costs (note 6.1)	**2,161,962**	2,339,350
Communication and traveling	**188,889**	179,075
Repairs and maintenance	**171,700**	151,097
Insurance	**132,333**	123,051
Fees and charges	**117,133**	100,243
Rent	**55,730**	53,800
Bank charges	**45,631**	64,666
Directors' sitting fees (note 24)	**70,000**	67,000
Statutory and legal expenses	**58,551**	57,248
Water and electricity charges	**19,958**	20,070
Advertising and business promotion expenses	**14,224**	11,722
Loss on sale of assets	**96**	-
Others	**219,537**	173,592
	3,255,744	3,340,914

6.1 Staff costs

Wages and salaries	**1,886,905**	1,917,349
Other benefits	**104,583**	249,674
Contributions towards the PASI	**108,374**	107,115
End of service benefits (note 20a)	**62,100**	65,212
	2,161,962	2,339,350

7 Property and equipment

	Land RO	Buildings RO	Motor vehicles RO	Furniture and office equipment RO	Total RO
Cost					
1 January 2017	1,969,215	769,966	44,500	1,204,063	3,987,744
Additions	-	-	-	41,127	41,127
1 January 2018	**1,969,215**	**769,966**	**44,500**	**1,245,190**	**4,028,871**
Additions	**-**	**-**	**-**	**81,305**	**81,305**
Disposal	-	-	-	**(101,111)**	**(101,111)**
31 December 2018	**1,969,215**	**769,966**	**44,500**	**1,225,384**	**4,009,065**
Depreciation					
1 January 2017	-	368,283	19,715	988,330	1,376,328
Charge for the year	-	38,491	12,045	72,705	123,241
1 January 2018	**-**	**406,774**	**31,760**	**1,061,035**	**1,499,569**
Charge for the year	**-**	**38,491**	**12,045**	**74,769**	**125,305**
Disposal	**-**	**-**	**-**	**(101,014)**	**(101,014)**
31 December 2018	**-**	**445,265**	**43,805**	**1,034,790**	**1,523,860**
Carrying value					
31 December 2018	**1,969,215**	**324,701**	**695**	**190,594**	**2,485,205**
31 December 2017	1,969,215	363,192	12,740	184,155	2,529,302

8 Taxation

Charge in the statement of comprehensive income is as follows:

	2018 RO	2017 RO
Statement of comprehensive income:		
Current tax:		
Current year	**133,301**	184,379
Deferred tax	**-**	(3,876)
	133,301	180,503

8 Taxation (continued)

Breakup of tax liability and deferred tax asset are as follows:

	2018 RO	2017 RO
Current liability		
Current year	**133,301**	180,503
Prior years	**396,307**	400,870
	529,608	581,373
Deferred tax asset		
At 1 January	**9,757**	5,881
Movement during the year	**-**	3,876
At 31 December	**9,757**	9,757
The deferred tax asset comprises of the following temporary differences		
Depreciation on property and equipment	**9,757**	9,757

The reconciliation of the tax on accounting profit at the applicable rate of 15% (2017 - 15%) and the taxation charge in the financial statements is as follows:

	2018 RO	2017 RO
Profit before taxation	**888,675**	1,203,354
Taxation at the applicable tax rate	**133,301**	180,503
Add / (less) tax effect of:		
Non - deductible expenses	**-**	-
Deductible expenses	**-**	-
Tax expense	**133,301**	180,503

The movement in the current tax liability is as follows:

	2018 RO	2017 RO
At 1 January	**581,373**	1,029,197
Charge for the year	**133,301**	184,379
Paid during the year	**(185,066)**	(632,203)
At 31 December	**529,608**	581,373

For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

The Company's tax assessments have been agreed with the taxation authorities up to tax year 2009. The Company has received Tax Assessment orders for the years 2010, 2011 and 2012 from tax authorities and has filed appeals against the objection decisions of Secretariat General for Taxation in respect of certain disallowances.

9 Deposits with the Central Bank of Oman

The deposit represents a capital deposit with the Central Bank of Oman made in accordance with the Banking Law of 1974. The deposit is only repayable if the Company terminates its installment finance business within the Sultanate of Oman and settles all outstanding obligations and claims arising from that business. During the year, the deposit earned interest at the rate of 1% (2017 - 1%) per annum.

10 Investment securities

	2018 RO	2017 RO
Al-Soor Financing (Kuwait)	**554,149**	554,149
National Bureau of Commercial Information	**1**	1
	554,150	554,150

These represent unquoted investments classified as fair value through other comprehensive income. The fair value of investment in the unquoted security (Al Soor Financing) was performed as of 31 December 2018, by an independent valuer not related to the Company. The valuer has appropriate qualifications and recent experience in the fair value assessment of similar securities. The fair value of unquoted security was determined based on the discounted cash flow method and income approach method (Level 3 fair value hierarchy).

11 Installment finance debtors

All debts are due from individuals, partnership firms and corporate bodies operating within the Sultanate of Oman. The maturity profile of debts outstanding at the reporting date is disclosed under note 27.

Installment finance debtors arising from financing activities

	2018 RO	2017 RO
Gross installment finance debtors	**132,318,899**	142,476,067
Unearned finance income	**(16,355,325)**	(18,827,819)
Net installment finance debtors	**115,963,574**	123,648,248
Debt factoring activity debtors	**316,942**	207,322
	116,280,516	123,855,570
Provision for expected credit losses	**(12,170,778)**	(8,542,463)
Unrecognised contractual income	**(2,642,423)**	(1,722,807)
	101,467,315	113,590,300

Debt factoring activity debtors includes amounts advanced to clients in respect of debts factored; interest on the amounts advanced and related charges. In the event of default in settlement of debts factored by customers of the client, the Company has recourse to the client.

11 Installment finance debtors (continued)

The table below represents analysis of gross installment finance debtors and present value of installment finance debtors for each of the following years:

	Upto 1 year	1 to 5 year	Above 5 years	Total
At 31 December 2018	**RO**	**RO**	**RO**	**RO**
Gross installment finance debtors finance and debt factoring activities debtors	**57,047,728**	**72,823,069**	**2,765,044**	**132,635,841**
Installment finance and debt factoring activities debtors net of unearned interest	**49,830,070**	**63,864,753**	**2,585,693**	**116,280,516**
At 31 December 2017				
Gross installment finance debtors and debt factoring activities debtors	56,398,217	84,491,146	1,794,026	142,683,389
Installment finance and debt factoring activities debtors net of unearned interest	48,079,643	74,083,082	1,692,845	123,855,570

Movement in provision for loan impairment

The movement in the provision for impairment of finance debtors and reserved interest for the year was as follows:

	Provision		
2018	**Principal**	**Interest**	**Total**
	RO	**RO**	**RO**
At 31 December 2017 – as previously reported	**8,542,463**	**1,722,807**	**10,265,270**
Impact of adoption of IFRS 9	**670,735**	**-**	**670,735**
At 1 January 2018	**9,213,198**	**1,722,807**	**10,936,005**
Charged during the year	**5,332,566**	**1,091,577**	**6,424,143**
Released during the year	**(2,374,986)**	**(171,961)**	**(2,546,947)**
At 31 December	**12,170,778**	**2,642,423**	**14,813,201**
2017			
At 1 January	4,498,533	1,202,528	5,701,061
Charged during the year	4,648,932	739,667	5,388,599
Released during the year	(605,002)	(219,388)	(824,390)
At 31 December	8,542,463	1,722,807	10,265,270

During the year 2017 an additional impairment provision amounting to RO 1,355,046 was booked as a result of an irregularity detected in Nizwa branch.

As at 31 December 2018 impairment provision as per CBO requirement is RO 12.15 million as against RO 12.17 million as per IFRS 9.

Contractual interest is not recognised by the Company so as to comply with the rules, regulations and guidelines issued by Regulators against instalment finance contract receivables from the month in which the receivables are impaired i.e. overdue by more than 89 days. As at 31 December 2018, the total balance of finance debtors on which interest has not been recognised amounted to RO 27.37 million (2017 - RO 21.61 million).

12 Other receivables and prepaid expenses

	2018 RO	2017 RO
Prepaid expenses	**45,217**	43,243
Advances	**10,858**	11,503
Other receivables	**13,990**	20,374
	70,065	75,120

13 Cash and cash equivalents

	2018 RO	2017 RO
Bank and cash balances	**317,127**	930,099
Call deposits	**201**	200
Cash and bank balances	**317,328**	930,299
Less: bank overdrafts (note 18)	**(361,018)**	(1,140,068)
	(43,690)	(209,769)

Call deposits are placed with a commercial bank in the Sultanate of Oman with annual interest rate of 0.25% (2017 - 0.25%) per annum.

14 Share capital

Share capital comprises 349,144,411 (2017 - 349,144,411) fully paid shares of RO 0.100 each. The Company's authorised share capital is RO 50,000,000 (2017 - RO 50,000,000).

The shareholders who own 5% or more of the Company's shares are as follows:

	Number of shares		Percentage of holding (%)	
	2018	2017	**2018**	2017
Oman Hotels and Tourism Company	**117,234,793**	117,234,793	**33.58**	33.58
Global Financial Investment Holding Company	**44,153,362**	44,113,362	**12.64**	12.63
Al Saud Company Ltd – Ubar Financial Investment	**26,331,515**	26,378,501	**7.54**	7.56
Oman Holding International Company SAOC	**19,731,704**	19,731,704	**5.65**	5.65
Al Ghantaq Golden LLC	**-**	23,708,476	**-**	6.79

15 Share premium reserve

The share premium account represents the balance of share premium collected by the Company at the time of rights issue and conversion of optional convertible bonds during 2008.

16 Reserves

(a) Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, annual appropriation of 10% of the profit for the year is made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the Company's paid-up share capital. This reserve is not available for distribution.

(b) Special reserve

As per policy the Company needs to create a special reserve to the extent of 1% of loans disbursed each year till it reaches 2% of the net installment finance debtors and subject to provisions of Article 106 of the Commercial Company Law. The special reserve is being maintained to cover any delinquencies arising from unforeseen contingencies. During 2018, the Company has not made any transfer to special reserve (2017: nil).

Special reserve is not available for distribution without prior approval of Central Bank of Oman.

(c) Foreign currency reserve

The Company maintained an optional "Foreign Currency Reserve" to mitigate risk of un-favourable foreign exchange losses.

(d) Impairment reserve

As required by Central Bank of Oman circular 1149, impairment reserve is created when the total provisions for impairment as required by extant guidelines on provisioning for non-performing loans is higher than the impairment allowance computed under IFRS 9.

No amount is transferred to impairment reserve as the impairment provision as per CBO requirement is RO 12.15 million as against RO 12.17 million as per IFRS 9.

17 Dividends proposed and paid

The Board of Directors have not recommended dividend for the year 2018.

18 Borrowings

	2018	2017
	RO	RO
Short-term loans	**18,500,000**	17,000,000
Current portion of long-term loans	**18,949,699**	38,104,360
Bank overdrafts	**361,018**	1,140,068
Short-term borrowings	**37,810,717**	56,244,428
Long-term portion of term loans	**10,209,734**	4,631,950
	48,020,451	60,876,378

The Company's bankers hold a pari passu charge over substantial portion of assets of the Company for the credit facilities granted. In addition, the Company is required to maintain certain performance and coverage ratios.

The Company borrows from commercial banks and others at market interest rates. The interest rates on overdrafts and short-term loans are subject to change at the discretion of the banks, upon renewal of the facilities.

The fair value of the long-term loans approximate their carrying value as it carries interest rates which approximates market interest rates.

The related interest rate risk and maturity profile are shown under note 27.

19 Corporate deposits

The Company accepts term deposits from corporate customers in accordance with the CBO guidelines for a minimum period of 6 months. The interest rate and maturity profile are given under note 27.

20 Creditors and other payables

	2018 RO	2017 RO
Trade creditors	**2,405,281**	2,523,482
End of service benefits (note 20a)	**549,221**	534,003
Interest payable	**248,111**	161,937
Accrued expenses	**169,256**	201,596
Advances received from customers	**20,743**	36,196
Others	**347,511**	394,964
	3,740,123	3,852,178

(a) End of service benefits

	2018 RO	2017 RO
At 1 January	**534,003**	485,031
Charge for the year	**62,100**	65,212
Payments made during the year	**(46,882)**	(16,240)
At 31 December	**549,221**	534,003

21 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of shares.

	2018	2017
Profit for the year (RO)	**755,374**	1,022,851
Weighted average number of shares	**349,144,411**	349,144,411
Basic earnings per share for the year (RO)	**0.002**	0.003

The diluted earnings per share is same as basic earnings per share as the Company does not have any instruments having dilutive effect.

22 Net assets per share

The calculation of net assets per share is as below:

	2018	2017
Net asset value (RO)	**43,963,638**	43,878,999
Number of ordinary shares outstanding	**349,144,411**	349,144,411
Net asset per share (RO)	**0.126**	0.126

23 Segmental information

The Company operates in the finance industry and its operations are confined to the Sultanate of Oman. Management has determined the operating segments based on the reports reviewed by the Management Committee that makes strategic decisions.

The Management Committee considers the business from a product perspective only, as geographically, all of the business is located locally in Oman.

The reportable operating segments derive their revenue primarily from corporate and retail. The insurance and factoring segments are not meeting the quantitative thresholds required by IFRS - 8 Operating Segments, therefore they are reported only for reconciliation purposes as well as the unallocated items.

The Management Committee assesses the performance of the operating segments based on a measure of profit before tax.

The segment information provided to the Management Committee for the reportable segments for the year ended 31 December 2018 is as follows:

31 December 2018	**Corporate**	**Retail**	**Others (insurance and debt factoring)**	**Unallocated items**	**Total**
	RO	**RO**	**RO**	**RO**	**RO**
Segmental revenues					
Installment finance incom	**6,125,574**	**3,017,073**	**10,543**	**-**	**9,153,190**
Interest expense	**(1,757,217)**	**(865,495)**	**-**	**-**	**(2,622,712)**
Net installment finance income	**4,368,356**	**2,151,579**	**10,543**	**-**	**6,530,478**
Other income	**-**	**-**	**87,634**	**614,185**	**696,826**
Segmental expenses					
Operating expenses	**(2,178,836)**	**(1,073,158)**	**(3,750)**	**-**	**(3,255,744)**
Depreciation	**-**	**-**	**-**	**(125,305)**	**(125,305)**
Profit before tax and provision for impairment	**2,189,521**	**1,078,421**	**89,434**	**488,880**	**3,846,255**
Provision for impairment-net	**(1,981,579)**	**(976,001)**	**-**	**-**	**(2,957,580)**
Segmental profit for the year before tax	**207,942**	**102,419**	**89,434**	**488,880**	**888,675**
Income tax expense	**-**	**-**	**-**	**(133,301)**	**(133,301)**
Segmental profit for the year	**207,942**	**102,419**	**89,434**	**355,579**	**755,374**
Total assets	**67,983,101**	**33,484,214**	**-**	**3,686,507**	**105,153,822**
Total liabilities	**-**	**-**	**-**	**61,190,182**	**61,190,182**

23 Segmental information (continued)

31 December 2017	Corporate	Retail	Others (insurance and debt factoring)	Unallocated items	Total
	RO	RO	RO	RO	RO
Segmental revenues					
Installment finance income	7,350,389	3,002,271	17,966	-	10,370,626
Interest expense	(1,862,427)	(760,710)	-	(2,623,137)	(2,623,137)
Net installment finance income	5,487,962	2,241,562	17,966	(2,623,137)	7,747,489
Other income	-	-	82,641	881,309	963,950
Segmental expenses					
Operating expenses	(2,367,940)	(967,187)	(5,787)	-	(3,340,914)
Depreciation	-	-	-	(123,241)	(123,241)
Profit before tax and provision for impairment	3,120,022	1,274,375	94,819	758,067	5,247,284
Provision for impairment-net	(2,871,190)	(1,172,740)	-	-	(4,043,930)
Segmental profit for the year before tax	248,832	101,635	94,819	758,067	1,203,354
Income tax expense	-	-	-	(180,503)	(180,503)
Segmental profit for the year	248,832	101,635	94,819	577,564	1,022,850
As Total assets	80,649,113	32,941,187	-	4,348,628	117,938,928
Total liabilities	-	-	-	74,059,929	74,059,929

24 Related parties

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions included in statement of comprehensive income are as follows:

	2018	2017
	RO	RO
Directors' sitting fees (note 6)	**70,000**	67,000
Proposed directors' remuneration (note 6)	**-**	-
Other related parties		
Installment finance income	**7,414**	10,830

24 Related parties (continued)

Transactions relating to installment finance debtors during the year are as follows:

	2018 RO	2017 RO
Legal expenses	**16,947**	12,182
Disbursements:		
Other related parties	**-**	69,264
Collections:		
Other related parties	**60,553**	68,001

Amounts due from related parties:

Installment finance debtors due	**75,681**	128,835

No provision is required in respect of loans given to the related parties.

Amounts due to related parties:

Lease financing	**1,381,738**	2,209,271
Amount due	**156,055**	200,446

Compensation of the key management personnel is as follows:

Salaries and allowances	**265,572**	261,774
End of service benefit	**18,587**	17,962
	284,159	279,736

25 Contingent liabilities

At 31 December 2018, there were contingent liabilities of RO 440,175 (2017 - nil) in respect of financial guarantees given to banks in the normal course of business on behalf of customers from which it is anticipated that no material liabilities will arise. Such guarantees are covered by counter guarantees from the customers in addition to other securities.

26 Fair value information

It is the Company's intention to hold loans and advances to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The Company considers that the fair value of financial instruments at 31 December 2018 and 2017 are not significantly different to their carrying value at each of those dates.

Fair value hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

26 Fair value information (continued)

	Total RO	Level 1 RO	Level 2 RO	Level 3 RO
31 December 2018				
Financial Instruments measured FVTOCI	**554,150**	**-**	**-**	**554,150**
31 December 2017				
Available-for-sale investments	554,150	-	-	554,150

During the reporting periods ended 31 December 2018 and 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

27 Financial risk management

The Company's activities expose it to variety of financial risks: credit risk, market risk (including foreign exchange risk and interest rate risk), liquidity risk and operational risk. The Company continuously strives to face challenges and exploit the opportunities the market offers through a process of proactively assessing market forces and economic factors to maintain a competitive edge by devising appropriate strategies to mitigate and manage risk.

The Board of Directors sets the overall risk parameters and tolerances and the significant risk management policies. The Audit and Risk Management Committee of the Board reviews and reports to the Board of Directors on the Company's risk profile and risk taking activities. The Management Committee chaired by Chief Executive Officer has the primary responsibility of sanctioning risk taking activities and risk management policies within the overall risk parameters and tolerances defined by the Board of Directors. The Risk Management Committee (the Committee) comprising of the risk management officials is chaired by the Deputy Chief Executive Officer provides the forum for review and approval of risk measurement methodologies, risk control processes and the approval of new products. Review of risks arising from external factors is also evaluated. The Committee also reviews all the risk policies and limits that require the formal approval of the Management Committee. The risk management control process is based on a detailed structure of policies, procedures and limits and comprehensive risk measurement and management systems for the control, monitoring and reporting of risks. Periodic reviews by the internal and external auditors and regulatory authorities subject the risk management processes to additional scrutiny that help to further strengthen the risk management environment.

Credit risk

The measurement of ECL under IFRS 9 uses the information and approaches that the Company uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed separately in significant accounting policies in note 3.

Credit risk is the risk of suffering financial loss, should any of the Company's customers, clients or market counterparties fail to fulfil their contractual obligations to the Company. Credit risk arises mainly from consumer financing, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as), financial guarantees, endorsements and acceptances.

27 Financial risk management (continued)

Credit risk (continued)

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is crucial for the Company's business; therefore management carefully manages its exposure to credit risk. Well defined policies and processes are in place at both the business units and corporate level that are intended to ensure that risks are assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counter party, and portfolio levels. Overall exposures are also evaluated to ensure a broad diversification of credit risk. The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography. The Company attempts to control credit risk through continuously reviewing and improving its credit policies to meet the demanding needs of market, setting and monitoring credit exposures, limiting transactions with specific counter parties and assessing their creditworthiness and restricting exposure to any particular industry or individuals or groups of customers in a particular region / location. In addition, to mitigate the risk of unforeseen eventualities, adequate security cover is maintained over the assets of the borrowers. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the Company's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Company does not occupy repossessed properties for business use.

Maximum exposure to credit risk
The table below gives the maximum exposure to credit risk. The maximum exposures are shown at gross before the effect of mitigation through the use of collateral agreements:

	Gross maximum exposure	
	2018	2017
	RO	RO
Installment finance debtors	**116,280,516**	123,855,570
Bank balances and deposits (including deposit with CBO)	**469,004**	1,075,999
Other receivables	**24,848**	31,877
Total credit risk exposure	**116,774,368**	124,963,446

Collateral held and other credit enhancement
The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company since the prior period. The underlying asset subject to lease is held as a acollateral in addition to personal guarantees of the lessee and other properties in certain cases.

Expected credit loss measurement
IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer below notes for a description of how the Company determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer below for description of how the Company defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer below for description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Please refer below for estimating impairment for explanation of how the Company has incorporated this in its ECL models.

27 Financial risk management (continued)

Credit risk (continued)

Expected credit loss measurement (continued)

Credit risk allocation

The Company allocates each exposure to a credit risk bucket based on days past due and other variety of data (quantitative and qualitative factors) that is determined to be predictive of the risk of default and applying experienced credit judgement. These factors vary depending on the nature of the exposure and the type of borrower.

At 31 December 2018 the ageing of financial receivables that were not impaired was as follows

	2018	2017
	RO	RO
Neither past due nor impaired	74,064,704	80,272,850
Past due 1-30 days	6,713,181	11,466,506
Past due 31-60 days	4,498,536	6,605,789
Past due 61-89 days	3,632,334	3,902,747

The total impaired asset as at 31 December 2018 amounts to RO 27.3 million (2017 : RO 21.6 million)

Credit risk buckets are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk buckets.

Generating the term structure of PD
Credit risk buckets are primary inputs into the determination of the term structure of PD for exposures. The Company collects performance information about its credit risk exposures analysed by type of product and borrower as well as by credit risk buckets.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors on the risk of default.

For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices. Based on advice from Risk Management Committee and economic experts and consideration of a variety of external actual and forecast information, the Company formulates a ‘base scenario’ of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

Significant increase in credit risk (SICR)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment and including forward-looking information.

27 Financial risk management (continued)

Credit risk (continued)

Expected credit loss measurement (continued)

Quantitative criteria for determining the significant increase in credit risk are summarized in the below table:

Portfolio	Days past due
Corporate	More than 30 days
Retail	More than 30 days

Further, as per CBO guidance BM 1149 circular, in respect of corporate borrowers where the exposure is RO 500,000 or more, the Company also considers the occurrence of any one or more of the following events as evidence of significant increase in credit risk.

- Inadequate or unreliable financial and other information such as unavailability of audited financial statements.
- Non-cooperation by the borrower in matters pertaining to documentation.
- Borrower is the subject of litigation by third parties that may have a significant impact on his financial position.
- Frequent changes in senior management.
- Intra-group transfer of funds without underlying transactions.
- Deferment / delay in the date for commencement of commercial operations by more than one year.
- Modification of terms resulting in concessions granted to the borrower including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, FLCs may be guided by the extant instructions of CBO in regard to treating an account as restructured.
- A fall of 25 percent or more in the turnover or in the earnings before interest and taxes (EBIT) as compared to the previous year.
- Erosion in net worth by more than 20 percent as compared to the previous year end coupled with an increase in leverage.
- A fall in the debt service coverage ratio to below 1.

Definition of default and credit-impaired assets

The Company considers a financial asset to be in default and credit impaired when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Company. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default and credit impaired, the Company considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. 90 days overdue status and non-payment on another obligation of the same borrower to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

27 Financial risk management (continued)

Credit risk (continued)

Measuring ECL – explanation of inputs, assumptions and estimation techniques

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described below.

PD estimates are estimates at a certain date, which are calculated using statistical models tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between buckets, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of Exposure At the time of Default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for undrawn loan commitment, the Company measures ECL over a period longer than the maximum contractual period if the Company's contractual ability to cancel the undrawn commitments does not limit the Company's exposure to credit losses to the contractual notice period. The Company can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Company becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Company expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Forward-looking information incorporated in the ECL models

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Risk Management Committee and economic experts and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

27 Financial risk management (continued)

Credit risk (continued)

Forward-looking information incorporated in the ECL models (continued)

This process involves developing additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company
operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The economic scenarios used as at 31 December 2018 included the following ranges of key indicators for Sultanate of Oman for the years ending 31 December 2019 to 2023.

	2019	2020	2021	2022	2023
GDP growth	5.05%	2.66%	3.08%	1.06%	1.52%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed considering Company's historical data and readily available papers issued by Basel committee on banking supervision.

Sensitivity analysis
Set out below are the changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in parameters from the actual assumptions used in the Company's economic variable assumptions.

Retail / Corporate portfolios

	[+1%]	No change	[-1%]
	RO	RO	RO
GDP growth	1,071,644	1,071,704	1,071,776

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

27 Financial risk management (continued)

Credit risk (continued)

Credit quality analysis

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in significant accounting policies in Note 3.

	2018				2017
	ECL Staging				
	Stage 1	**Stage 2**	**Stage 3**		
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**	Total
Installment finance debtors:					
Standard	**74,970,425**	**13,938,331**	**-**	**88,908,756**	102,247,892
Special mentioned / watch list	**-**	**-**	**6,410,981**	**6,410,981**	7,347,649
Substandard	**-**	**-**	**3,144,475**	**3,144,475**	2,873,856
Doubtful	**-**	**-**	**2,120,396**	**2,120,396**	2,668,175
Loss	**-**	**-**	**15,695,908**	**15,695,908**	8,717,998
	74,970,425	**13,938,331**	**27,371,760**	**116,280,516**	123,855,570
Loss allowance	**(151,634)**	**(910,065)**	**(13,741,497)**	**(14,803,196)**	(10,933,736)
Carrying amount	**74,818,791**	**13,028,266**	**13,630,263**	**101,477,320**	112,921,834
Undrawn Commitments	**-**	**535,400**	**-**	**535,400**	844,527
Loss allowance	**-**	**(10,005)**	**-**	**(10,005)**	(2,270)
	-	**525,395**	**-**	**525,395**	842,257
Carrying amount	**74,818,791**	**13,018,261**	**13,630,263**	**101,467,315**	112,919,564

Amounts arising from ECL

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

27 Financial risk management (continued)

Credit risk (continued)

Amounts arising from ECL (continued)

Credit quality analysis

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	RO	RO	RO	RO
Loss allowance at 1 January 2018	**133,290**	**2,390,490**	**6,689,418**	**9,213,198**
Movements with income statement impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(25,845)	419,977	-	**394,132**
Transfer from Stage 1 to Stage 3	(41,806)	-	695,256	**653,450**
Transfer from Stage 2 to Stage 1	29,832	(147,656)	-	**(117,824)**
Transfer from Stage 2 to Stage 3	-	(511,164)	1,434,742	**923,578**
Transfer from Stage 3 to Stage 1	423	-	(104,780)	**(104,357)**
Transfer from Stage 3 to Stage 2	-	58,060	(90,378)	**(32,318)**
New financial assets originated or purchased	13,787	91,196	333,652	**438,635**
Changes in PDs/LGDs/EADs	48,815	(1,306,847)	2,422,504	**1,164,472**
Financial assets derecognised during the period	(6,862)	(73,986)	(281,340)	**(362,188)**
Changes to model assumptions and methodologies	-	-	-	-
Loss allowance at 31 December 2018	**151,634**	**920,070**	**11,099,074**	**12,170,778**

The unwind of discount on Stage 3 financial assets is reported within 'Interest Income' so that interest income is recognised on the amortised cost (after deducting the ECL allowance).

27 Financial risk management (continued)

Credit risk (continued)

Amounts arising from ECL (continued)

Credit quality analysis (continued)
The following table further explains changes in the gross carrying amount of the mortgage portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

	Stage 1 12-month ECL RO	Stage 2 Lifetime ECL not credit-impaired RO	Stage 3 Lifetime ECL credit-impaired RO	Total RO
Gross carrying amount as at 1 January 2018	86,269,350	15,616,598	21,607,678	123,493,626
Transfers:				
Transfer from Stage 1 to Stage 2	(9,484,721)	8,141,781	-	**(1,342,940)**
Transfer from Stage 1 to Stage 3	(5,240,944)	-	4,488,827	**(752,117)**
wTransfer from Stage 2 to Stage 1	1,846,465	(2,608,176)	-	**(761,711)**
Transfer from Stage 2 to Stage 3	-	(6,463,671)	5,181,947	**(1,281,724)**
Transfer from Stage 3 to Stage 1	412,530	-	(740,285)	**(327,755)**
Transfer from Stage 3 to Stage 2	-	882,760	(1,517,744)	**(634,984)**
Financial assets derecognised during the period other than write-offs	(7,374,010)	(1,081,828)	(1,217,873)	**(9,673,711)**
New financial assets originated	21,195,235	861,643	361,376	**22,418,254**
Loans repaid during the year	(12,651,981)	(1,412,277)	(792,166)	**(14,856,424)**
Gross carrying amount as at 31 December 20	**74,971,925**	**13,936,830**	**27,371,760**	**116,280,515**

Write-off policy

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Company may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was nil (2017: Nil).

Modified financial assets

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

	2018 RO'000
Financial assets modified during the period	
Amortised cost before modification	**341**
Net modification loss	**51**
Financial assets modified since initial recognition	
Gross carrying amount at 31 December of financial assets for which loss allowance has changed to 12-month measurement during the period	**2,793**

27 Financial risk management (continued)

Credit risk (continued)

Comparison of provision held as per IFRS 9 and required as per CBO norms

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Net carrying amount RO'000	Interest recognized as per IFRS 9 RO'000	Reserve interest as per CBO norms RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)	(9)
Standard	Stage 1	74,970	-	152	(152)	74,818	6,251	-
	Stage 2	14,473	233	920	(687)	13,553	1,397	
	Stage 3	-	-	-	-	-	-	-
		89,443	233	1,072	(839)	88,371	7,648	-
Special mention	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	6,411	368	366	2	6,045	416	264
		6,411	368	366	2	6,045	416	264
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	3,144	733	808	(75)	2,336	107	211
		3,144	733	808	(75)	2,336	107	211
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	2,121	796	912	(116)	1,209	34	175
		2,121	796	912	(116)	1,209	34	175
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	15,696	10,016	9,013	1,003	6,683	8	1,992
		15,696	10,016	9,013	1,003	6,683	8	1,992
Total	Stage 1	74,970	-	152	(152)	74,818	6,251	-
	Stage 2	14,473	233	920	(687)	13,553	1,397	-
	Stage 3	27,372	11,913	11,099	814	16,273	565	2,642
	Total	116,815	12,146	12,171	(25)	104,644	8,213	2,642

27 Financial risk management (continued)

Credit risk (continued)

Loans with renegotiated terms
Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Company has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Company had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Renegotiated finance debtors as at 31 December 2018 was RO 2.74 million (2017 - RO 2.80 million). Out of these finance debtors amounting to RO 1.78 million (2017 - RO 1.73 million) were impaired at the time of renegotiation.

Restructured accounts

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net carrying amount	Interest recognized as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)	(9)
	Stage 1	-	-	-	-	-	-	-
Classified as performing	**Stage 2**	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
Sub total		-	-	-	-	-	-	-
	Stage 1	-	-	-	-	-	-	-
Classified as non-performing	**Stage 2**	-	-	-	-	-	-	-
	Stage 3	2,793	566	807	(241)	1,986	13	378
		2,793	566	807	(241)	1,986	13	378
	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	2,793	566	807	(241)	1,986	13	378
Total	**Total**	2,793	566	807	(241)	1,986	13	378

27 Financial risk management (continued)

Credit risk (continued)

Impairment allowance and loss

	As per CBO Norms		As per IFRS 9		Difference	
	2018	2017	**2018**	2017	**2018**	2017
Impairment loss charged to profit and loss account	**3,603,209**	4,043,930	**2,957,580**	4,714,665	**645,629**	**(670,735)**
Provisions required as per CBO norms / held as per IFRS 9	**12,145,672**	8,542,463	**12,170,778**	9,213,198	**(25,106)**	**(670,735)**
Gross NPL ratio	**24%**	**17%**	**24%**	**17%**	**0%**	**0%**
Net NPL ratio	**12%**	**11%**	**12%**	**11%**	**(1%)**	**0%**

Concentrations of credit risk

Concentration of risk is managed by client/counterparty and by industry sector exposures. There is no significant credit exposure relating to installment finance debtors to any single counterparty as of 31 December 2018. An industry sector analysis of the Company's installment finance debtors (net) before taking into account collateral held is as follows:

	2018	2017
	RO	RO
Personal / car loans	**31,616,901**	32,445,435
Business loan		
- Services	**28,904,934**	31,924,919
- Construction contracts	**23,757,001**	29,139,889
- Construction equipment	**9,283,410**	11,762,162
- Manufacturing	**4,039,154**	3,336,819
- Trading	**2,134,102**	2,694,209
- Other	**1,731,813**	2,286,867
	101,467,315	113,590,300

Credit quality per class of financial assets

The credit quality of financial assets is regularly monitored by the Company.

Aging analysis of past due but not impaired installment finance debtors after deduction of unearned finance income is set out as below:

	2018	2017
	RO	RO
1 to 89 days	**14,844,051**	21,975,042

Aging analysis of past due and impaired installment finance debtors after deduction of unearned finance income is set out as below:

	2018	2017
	RO	RO
90 to 364 days	**11,675,852**	12,889,680
365 days and above	**15,695,908**	8,717,998
	27,371,760	21,607,678

27 Financial risk management (continued)

All loans extended by the Company are against security of assets financed and in certain cases, if required, against additional security. All loans are additionally secured by personal guarantees of the borrowers.

The Company limits its credit risk with regard to bank deposits by dealing with reputable banks.

Market risk

Market risk is the risk of loss due to adverse changes in interest rates and foreign exchange rates. The Company does not actively participate in trading in debts, equity securities, and foreign exchange or derivative instruments.

Foreign exchange risk

Currency risk arises from the possibility of changes in the value of financial assets due to changes in the foreign currency rates. As there is an exchange parity agreement between Oman and the United States of America, the exchange rates have remained stable over the years. Additionally, management maintains a “foreign currency reserve” to mitigate foreign exchange risk.

Interest rate risk

Interest rate risk is the uncertainty of future earnings resulting from fluctuations in interest rates. The risk arises when there is a mismatch in the assets and liabilities, which are subject to interest rate adjustment within a specified period. The Company manages this risk by matching the re-pricing of assets and liabilities and through risk management strategies. The loans extended by the Company are for periods varying from one to over five years are at fixed interest rates, albeit with interest variance clause. However, any re-pricing of the Company’s liabilities by its lenders due to economic factors would result to some extent in interest rate risk. The Company mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates.

The interest rates on borrowings with banks are subject to change upon re-negotiation of the facilities which takes place on an annual basis in the case of overdrafts and at more frequent intervals in the case of short-term loans. The Company uses sensitivity analysis to analyse and measure interest rate on the variable cost of borrowings. Management estimates that the Company’s interest costs are sensitive to the extent that change in 100 basis points in the average funding cost would change net interest income by RO 188,611 (2017 - RO 181,401). The Company’s exposure to interest rate risk is analysed in the following tables.

27 Financial risk management (continued)

Market risk (continued)

Interest rate risk (continued)

The table below summarises the Company's exposure to interest rate risks. Included in the table are the Company's financial instruments and other assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates .

31 December 2018	Effective interest-rate in %	0 - 6 months RO	6 - 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Fixed rate or non interest sensitive RO	Total RO
Assets								
Investment securities	-	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	1.00	-	-	-	-	-	250,000	250,000
Installment finance debtors	9.19	15,731,785	16,882,160	23,491,816	17,271,077	28,090,477	-	101,467,315
Other receivables	-	-	-	-	-	-	24,848	24,848
Cash and cash equivalents	0.25	201	-	-	-	-	317,127	317,328
Property and equipment and other assets	-						2,540,179	2,540,179
Total assets		15,731,986	16,882,160	23,491,816	17,271,077	28,090,477	3,686,304	105,153,820
Equity and liabilities		-	-	-	-	-	-	-
Borrowings*		30,106,751	7,703,966	9,820,845	388,889	-	-	48,020,451
Corporate deposits*		500,000	1,400,000	7,000,000	-	-	-	8,900,000
Creditors and other payables		-	-	-	-	-	3,740,123	3,740,123
Equity and taxation		-	-	-	-	-	44,493,246	44,493,246
Total equity and liabilities		30,606,751	9,103,966	16,820,845	388,889	-	48,233,369	105,153,820
Interest rate sensitivity gap		(14,874,765)	7,778,194	6,670,971	16,882,188	28,090,477	(44,547,065)	-
Cumulative gap		(14,874,765)	(7,096,571)	(425,600)	16,456,588	44,547,065	-	-

27 Financial risk management (continued)

Market risk (continued)

Interest rate risk (continued)

31 December 2017	Effective interest-rate in %	0 - 6 months RO	6 - 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Fixed rate or non interest sensitive RO	Total RO
Assets								
Investment securities	-	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	1.00	-	-	-	-	-	250,000	250,000
Installment finance debtors	9.36	17,653,341	18,658,470	26,593,800	20,576,681	30,108,008	-	113,590,300
Other receivables	-	-	-	-	-	-	31,877	31,877
Cash and cash equivalents	0.25	200	-	-	-	-	930,099	930,299
Property and equipment and other assets	-	-	-	-	-	-	2,582,302	2,582,302
Total assets		17,653,541	18,658,470	26,593,800	20,576,681	30,108,008	4,348,428	117,938,928
Equity and liabilities								
Borrowings*		40,594,777	15,649,651	4,631,950	-	-	-	60,876,378
Corporate deposits*		5,750,000	3,000,000	-	-	-	-	8,750,000
Creditors and other payables		-	-	-	-	-	3,852,178	3,852,178
Equity and taxation		-	-	-	-	-	44,460,372	44,460,372
Total equity and liabilities		46,344,777	18,649,651	4,631,950	-	-	48,312,550	117,938,928
Interest rate sensitivity gap		(28,691,236)	8,819	21,961,850	20,576,681	30,108,008	(43,964,122)	-
Cumulative gap		(28,691,236)	(28,682,417)	(6,720,567)	13,856,114	43,964,122	-	-

* *Borrowings and corporate deposits are at market rates.*

27 Financial risk management (continued)

Liquidity risk

Liquidity risk is that an entity will encounter when it is unable to meet its obligations at any given time. The Company's conservative liability management policies are designed to ensure that even in adverse situations the Company should be in a position to meet its obligations. In normal conditions the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. The objectives are met through the application of prudent liquidity controls.

The amounts disclosed in table below analyses the Company's financial instruments and other assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances, as the impact of the discounting is not significant. Unutilised credit facilities as on 31 December 2018 were RO 15.71 million (2017 - RO 32.27 million).

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27 Financial risk management (continued)

Liquidity risk

31 December 2018	0 – 6 months RO	6 – 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Assets							
Investment securities	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	-	-	-	-	-	250,000	250,000
Installment finance debtors	15,731,785	16,882,160	23,491,816	17,271,077	28,090,477	-	101,467,315
Other receivables and prepaid expenses	70,065	-	-	-	-	-	70,065
Cash and cash equivalents	317,328	-	-	-	-	-	317,328
Property and equipment and other assets	-	-	-	-	-	2,494,962	2,494,962
Total assets	16,119,178	16,882,160	23,491,816	17,271,077	28,090,477	3,299,112	105,153,820
Equity and liabilities							
Borrowings	30,106,751	7,703,966	9,820,845	388,889	-	-	48,020,451
Corporate deposits	500,000	1,400,000	7,000,000	-	-	-	8,900,000
Creditors and other payables	2,855,872	335,030	-	-	-	549,221	3,740,123
Equity and taxation	-	-	-	-	-	44,493,246	44,493,246
Total equity and liabilities	33,462,623	9,438,996	16,820,845	388,889	-	45,042,467	105,153,820
Gap in maturity (excluding off balance sheet items)	(17,343,445)	7,443,164	6,670,971	16,882,188	28,090,477	(41,743,355)	-
Cumulative gap in maturity	(17,343,445)	(9,900,281)	(3,229,310)	13,652,878	41,743,355		
Assets off balance sheet							
Unearned finance income	3,807,290	3,410,368	4,759,480	2,582,423	1,795,764	-	16,355,325
Total assets (including off balance sheet items)	19,926,468	20,292,528	28,251,296	19,853,500	29,886,241	3,299,112	121,509,145

27 Financial risk management (continued)

Liquidity risk (continued)

31 December 2018 (continued)	0 – 6 months RO	6 – 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Total assets (including off balance sheet items)	19,926,468	20,292,528	28,251,296	19,853,500	29,886,241	3,299,112	121,509,145
Liabilities off balance sheet							
Interest payable on loans	967,223	589,136	440,303	6,960	-	-	2,003,622
Contingent liabilities	24,000	268,500	147,675	-	-		440,175
Total equity and liabilities (including off balance sheet items)	34,453,846	10,296,632	17,408,823	395,849	-	45,042,467	107,597,617
Gap in maturity	(14,527,378)	9,995,896	10,842,473	19,457,651	29,886,241	(41,743,355)	13,911,528
Cumulative gap in maturity	(14,527,378)	(4,531,482)	6,310,991	25,768,642	55,654,883	13,911,528	

27 Financial risk management (continued)

Liquidity risk (continued)

31 December 2017	0 – 6 months RO	6 – 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Assets							
Investment securities	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	-	-	-	-	-	250,000	250,000
Installment finance debtors	17,653,341	18,658,470	26,593,800	20,576,681	30,108,008	-	113,590,300
Other receivables and prepaid expenses	75,120	-	-	-	-	-	75,120
Cash and cash equivalents	930,299	-	-	-	-	-	930,299
Property and equipment and other assets	-	-	-	-	-	2,539,059	2,539,059
Total assets	18,658,760	18,658,470	26,593,800	20,576,681	30,108,008	3,343,209	117,938,928
Equity and liabilities							
Borrowings	40,594,777	15,649,651	4,631,950	-	-	-	60,876,378
Corporate deposits	5,750,000	3,000,000	-	-	-	-	8,750,000
Creditors and other payables	3,063,381	254,794	-	-	-	534,003	3,852,178
Equity and taxation	-	-	-	-	-	44,460,372	44,460,372
Total equity and liabilities	49,408,158	18,904,445	4,631,950	-	-	44,994,375	117,938,928
Gap in maturity (excluding off balance sheet items)	(30,749,398)	(245,975)	21,961,850	20,576,681	30,108,008	(41,651,166)	-
Cumulative gap in maturity	(30,749,398)	(30,995,373)	(9,033,523)	11,543,158	41,651,166	-	-
Assets off balance sheet							
Unearned finance income	4,370,511	3,948,063	5,558,819	3,073,342	1,877,084	-	18,827,819
Total assets (including off balance sheet items)	23,029,271	22,606,533	32,152,619	23,650,023	31,985,092	3,343,209	136,766,747

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2018

27 Financial risk management (continued)

Liquidity risk (continued)

31 December 2017 (continued)	0 – 6 months RO	6 – 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Total assets (including off balance sheet items)	23,029,271	22,606,533	32,152,619	23,650,023	31,985,092	3,343,209	136,766,747
Liabilities off balance sheet							
Interest payable on loans	875,510	293,123	60,246	-	-	-	1,228,879
Contingent liabilities	-	-	-	-	-	-	-
Total equity and liabilities (including off balance sheet items)	50,283,668	19,197,568	4,692,196	-	-	44,994,375	119,167,807
Gap in maturity	(27,254,397)	3,408,965	27,460,423	23,650,023	31,985,092	(41,651,166)	17,598,940
Cumulative gap in maturity	(27,254,397)	(23,845,432)	3,614,991	27,265,014	59,250,106	17,598,940	-

27 Financial risk management (continued)

Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it in the light of changes in business conditions. No changes were made in the objectives, policies or processes during the year. Capital comprises share capital, legal reserve, special reserve, foreign currency reserve and retained earnings, and is measured at RO 43.96 million as at 31 December 2018 (2017 - RO 43.88 million).

The Company is already in compliance with the Central Bank of Oman's minimum capital requirement of RO 25 million.

Consistent with the regulations prevailing in the industry, the Company monitors capital on the basis of the gearing and leverage ratios. The gearing ratio is calculated as total borrowing (including 'current and non-current borrowings') divided by total equity as shown in the statement of financial position. Leverage ratio is calculated as total outside liabilities divided by net worth (excluding specific reserves and proposed cash dividend).

During 2018 and 2017, the Company's strategy was to maintain the gearing and leverage ratios within 5 times of the equity. The gearing and leverage ratios at 31 December 2018 and 2017 were as follows:

	2018 RO'000	2017 RO'000
Total borrowings	**56,920**	69,626
Total outside liabilities	**60,661**	73,479
Total equity	**43,964**	43,879
Net worth (defined above)	**36,839**	36,830
Gearing ratio (times)	**1.29**	1.59
Leverage ratio (times)	**1.65**	2.00

28 Impact on adoption of new IFRSs on the date of initial application

Impact on adoption of IFRS 9 Financial Instruments

The following table analyses the impact, net of tax, of transition to IFRS 9 on retained earnings.. There is no impact on other components of equity.

	Impact of adopting IFRS 9 at 1 January 2018 RO
Retained earnings:	
Closing balance under IAS 39 at 31 December 2017	**1,092,626**
Recognition of expected credit losses under IFRS 9 (including loan commitments and financial guarantee contracts)	**(670,735)**
Opening balance under IFRS 9 at 1 January 2018	**421,891**

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 RO	New carrying amount under IFRS 9 RO
Cash and bank balance	Loans and receivables	Amortised cost	930,299	930,299
Installment finance debtors	Loans and receivables	Amortised cost	113,590,300	112,919,565
CBO deposits	Loans and receivables	Amortised cost	250,000	250,000
Other receivables	Loans and receivables	Amortised cost	75,120	75,120
Investment securities	Available for sale	FVOCI	554,150	554,150
Total financial assets			**115,399,869**	**114,729,134**
Borrowings	Amortised cost	Amortised cost	60,876,378	60,876,378
Corporate deposits	Amortised cost	Amortised cost	8,750,000	8,750,000
Creditors and other payables	Amortised cost	Amortised cost	3,852,178	3,852,178
Total financial liabilities			**73,478,556**	**73,478,556**

28 Impact on adoption of new IFRSs on the date of initial application (continued)

Impact on adoption of IFRS 9 Financial Instruments (continued)

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount 31 December 2017 RO	Reclassi-fication RO	Remeasure-ment RO	IFRS 9 carrying amount 1 January 2018 RO
Installment finance debtors	113,590,300	-	(670,735)	112,919,565

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS 39 / IAS 37) RO	Reclassi-fica-tion RO	Remeasure-ment RO	1 January 2018 (IFRS 9) RO
Installment finance debtors	8,542,463	-	668,465	9,210,928
Loan commitments and financial guarantee contracts issued	-	-	2,270	2,270
Total	8,542,463	-	670,735	9,213,198

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2018	Designated as at FVTPL RO	FVOCI – equity instruments RO	Amortised cost RO	Total carrying amount RO
Cash and Bank balance	-	-	317,328	317,328
Installment finance debtors	-	-	101,467,315	101,467,315
CBO deposits	-	-	250,000	250,000
Other receivables	-	-	70,065	70,065
Investments	-	554,150	-	554,150
Total financial assets	-	554,150	102,104,708	102,658,858
Borrowings	-	-	48,020,451	48,020,451
Corporate deposits	-	-	8,900,000	8,900,000
Creditors and other payable	-	-	3,740,123	3,740,123
Total financial liabilities	-	-	60,660,574	60,660,574

28 Impact on adoption of new IFRSs on the date of initial application (continued)

Impact on adoption of IFRS 9 Financial Instruments (continued)

31 December 2017	Trading	Designated as at FVTPL	Held-to-maturity	Loans and receivables	Available-for-sale	Total carrying amount
	RO	RO	RO	RO	RO	RO
Cash and bank balance	-	-	-	930,299		930,299
Installment finance debtors	-	-	-	113,590,300		113,590,300
CBO deposits	-	-	-	250,000		250,000
Other receivables	-	-	-	75,120	-	75,120
Investment securities	-	-	-	-	554,150	554,150
Total financial assets	-	-	-	114,845,719	554,150	115,399,869
Borrowings	-	-	-	60,876,378	-	60,876,378
Corporate deposits	-	-	-	8,750,000	-	8,750,000
Creditors and other payable	-	-	-	3,852,178	-	3,852,178
Total financial liabilities	-	-	-	73,478,556	-	73,478,556

Impact on adoption of IFRS 15 Revenue from contracts with customers

IFRS 15, 'Revenue from Contracts with Customer's, has replaced IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard provides enhanced detail and a five-step revenue recognition approach to reflect the transfer of goods and services to customers. The core principle of IFRS 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. This differs from the principle under the current revenue standard that requires an assessment of when risks and rewards of goods and services are transferred rather than control of those goods or services.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application, i.e. without restating the comparative year. They will only need to apply the new rules to contracts that are not completed as of the date of initial application. The mandatory application date for IFRS 15 is 1 January 2018. The adoption of IFRS 15 has not resulted in a material impact on the Company's financial statements on the opening balance as of 1 January 2018.

29 Approval of financial statements

These financial statements were approved by the Board of directors and authorized for issue on 31 January 2019.