



Report of the independent auditor's to the shareholders of National Finance Company SAOG

Report on the financial statements

We have audited the accompanying financial statements of National Finance Company SAOG (the Company) which comprise the statement of financial position as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other legal and regulatory requirements

Further, as required by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading (R&G) issued by the Capital Market Authority (CMA) of the Sultanate of Oman, we report that the accompanying financial statements have been properly prepared, in all material respects, in accordance with the R&G, with the Rules for Disclosure and Proformas issued by the CMA and with the Commercial Companies Law of 1974, as amended.

8 March 2015

Muscat, Sultanate of Oman

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NATIONAL FINANCE COMPANY SAOG

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 Rial '000	2013 Rial '000
Income from financing activities		15,094	13,966
Finance cost		(4,034)	(3,914)
Net finance income		11,060	10,052
Other operating income	6	817	572
Total income		11,877	10,624
Operating expenses			
General and administrative expenses	7	(4,047)	(3,526)
Depreciation	15	(306)	(289)
		(4,353)	(3,815)
Profit before provision for impairment		7,524	6,809
Provision for impairment of lease receivables	12	(1,638)	(1,510)
Bad debts written back- net		54	136
Profit before taxation		5,940	5,435
Taxation	8	(737)	(642)
Total profit and comprehensive income for the year		5,203	4,793
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Depreciation transfer - net of tax		4	7
Total comprehensive income		5,207	4,800
Earnings per share (Rial)	9	0.020	0.019

The notes on pages 6 to 28 form an integral part of these financial statements.

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NATIONAL FINANCE COMPANY SAOG

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 Rial'000	2013 Rial '000
ASSETS			
Cash and bank balances	10	1,328	1,943
Statutory deposit	11	170	130
Net investment in financing activities	12	160,869	145,960
Advances and prepayments		1,648	1,627
Property pending sale	13	131	131
Property and equipment	15	1,154	1,328
Total assets		165,300	151,119
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital	16	25,681	25,055
Revaluation reserve		651	655
Legal reserve	17	3,556	3,036
Retained earnings		8,859	7,304
Netequity		38,747	36,050
LIABILITIES			
Creditors and accruals	18	4,605	3,098
Staff terminal benefits	19	542	550
Tax liabilities	14	321	566
Bank borrowings	20	101,317	92,769
Fixed deposits	21	19,768	18,086
Total liabilities		126,553	115,069
Total equity and liabilities		165,300	151,119
Net assets per share (Rial)	9	0.151	0.144

These audited financial statements were approved and authorised for issue in accordance with a resolution of the Directors on 29 January 2015 and signed on their behalf by:

TAYA BIN JANDAL BIN ALI
CHAIRMAN

ROBERT PANCRAAS
CHIEF EXECUTIVE OFFICER

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NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital Rial '000	Revaluation reserve Rial '000	Legal reserve Rial '000	Retained earnings Rial '000	Total Rial '000
1 January 2014	25,055	655	3,036	7,304	36,050
Comprehensive income:					
Profit for the year	-	-	-	5,203	5,203
Other comprehensive income					
Transfer to retained earnings - net of tax	-	(4)	-	4	-
Transactions with owners:					
Transfer to legal reserve	-	-	520	(520)	-
Stock dividend	626	-	-	(626)	-
Cash dividend paid	-	-	-	(2,506)	(2,506)
Total transactions with owners	626	-	520	(3,652)	(2,506)
31 December 2014	25,681	651	3,556	8,859	38,747

	Share capital Rial '000	Revaluation reserve Rial '000	Legal reserve Rial '000	Retained earnings Rial '000	Total Rial '000
1 January 2013	25,055	662	2,557	5,489	33,763
Comprehensive income:					
Profit for the year	-	-	-	4,793	4,793
Other comprehensive income					
Transfer to retained earnings - net of tax	-	(7)	-	7	-
Transactions with owners:					
Transfer to legal reserve	-	-	479	(479)	-
Cash dividend	-	-	-	(2,506)	(2,506)
Total transactions with owners	-	-	479	(2,985)	(2,506)
31 December 2013	25,055	655	3,036	7,304	36,050

The notes on pages 6 to 28 form an integral part of these financial statements.

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NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 Rial '000	2013 Rial '000
Operating activities			
Profit before taxation		5,940	5,435
Adjustments for:			
Depreciation	15	306	289
Staff terminal benefits	19	112	110
Provision for impairment of lease receivables		1,638	1,510
Bad debts written back		(54)	(136)
Finance cost		4,034	3,914
Operating cash flows before working capital changes and payment of end of service benefits		11,976	11,122
Staff terminal benefits paid	19	(120)	(77)
Changes in operating assets and liabilities			
Investment in financing activities		(16,493)	(20,648)
Advances and prepayments		(21)	213
Creditors and accruals		1,507	(313)
Interest paid		(4,002)	(3,896)
Income tax paid	14	(982)	(612)
Net cash used in operating activities		(8,135)	(14,211)
Investing activities			
Purchase of property and equipment	15	(132)	(102)
Net cash used in investing activities		(132)	(102)
Financing activities			
Bank borrowings (net)		8,654	10,486
Fixed deposits (net)		1,672	5,813
Statutory deposit paid to CBO		(40)	(40)
Dividend paid		(2,506)	(2,506)
Net cash generated from financing activities		7,780	13,753
Net change in cash and cash equivalents		(487)	(560)
Cash and cash equivalents at the beginning of the year		1,335	1,895
Cash and cash equivalents at the end of the year	23	848	1,335

The notes on pages 6 to 28 form an integral part of these financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

1 Legal status and principal activities

National Finance Company SAOG (the Company) is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman and has a primary listing on the Muscat Security Market. The principal activity of the Company is leasing business. The Company derives all of its income from financing operations, factoring and working capital funding within the Sultanate of Oman.

2 Summary of significant accounting policies

The principal accounting policies are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 1974, as amended and comply with the disclosure requirements set out in the “Rules and Guidelines on Disclosure by issuers of Securities and Insider Trading” issued by the Capital Market Authority (CMA) of the Sultanate of Oman.

(b) Use of estimates and judgements

The financial statements have been prepared on the historical cost basis except for land and building that are shown at revalued amount.

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

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods effected.

(c) Standards, amendments and interpretation effective in 2014 and relevant for the Company’s operations:

For the year ended 31 December 2014, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2014.

The adoption of those standards and interpretations has not resulted in changes to the Company’s accounting policies and has not affected the amounts reported for the current period.

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)****2 Summary of significant accounting policies (continued)****2.2 Revenue recognition**

Assets owned by the Company but subject to a finance lease, are included in the financial statements as net investment in finance leases. The present value of the future minimum lease payments plus initial direct costs, discounted using the interest rate implicit in the lease, is recognised as a receivable and the difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Initial direct costs include amounts such as commissions, incentives, legal fees and internal costs that are directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by sales and marketing team. Income from finance leases represents gross earnings on finance leases allocated to the period of the lease using the net investment method, which reflects a constant periodic rate of return, unless collectability is in doubt.

Interest on factoring and working capital receivables is recognised using effective interest method over the tenure of agreement.

Interest on past due and impaired loans is recognised and reserved from income and reversed to the extent of the interest on overdue installments collected. Penal charges and other fees are recognised when realised.

2.3 Impairment of financial assets**Assets carried at amortised cost**

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

- (i) Significant financial difficulty of the borrower;
- (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) The Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;
- (iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group; or national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)****2 Summary of significant accounting policies (continued)****2.3 Impairment of financial assets (continued)**

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. 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 comprehensive income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows associated with the assets and the Company's 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, including peer statistics, to reflect the effects of current conditions that did not affect the period 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 for groups of assets should reflect, and be directionally consistent with, changes in related observable data from period to period (for example, payment status or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company and, if required, revised in order to reflect in loss estimates any changes in actual loss experience.

When a receivable is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the receivable is written off against the related provision for loan impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

2.3 Impairment of financial assets (continued)

The Company may restructure loans at the request of customers. This may involve extending the payment arrangements and the agreement of new loan conditions. 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.

2.4 Property and equipment

Land and buildings are shown at revalued amounts, based on valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

2 Summary of significant accounting policies (continued)

2.4 Property and equipment (continued)

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. All other repairs and maintenance expenses are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on a straight-line basis over the estimated useful lives of items of property and equipment. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	10
Furniture, fixtures and equipment	4
Computer hardware & software	3
Motor vehicles	3
Freehold land and capital work-in-progress are not depreciated.	

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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 disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.5 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2.6 Borrowings

Borrowings which include corporate deposits are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income over the repayment period of the borrowings using the effective interest rate method.

2.7 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.8 Assets held for sale

Assets held for sale represent collateral acquired in part settlement of amount due from customers and are initially recognised at cost, being the fair value of the consideration given, and subsequently measured at the lower of cost and net realisable value. Write-downs to adjust the cost to net realisable value are recognised in the statement of comprehensive income in the period in which they arise.

2.9 Creditors and accruals

Creditors and accruals 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)****2 Summary of significant accounting policies (continued)****2.10 Staff terminal benefits and leave entitlements**

End of service indemnity for Omani employees are contributed in accordance with the terms of the Social Securities Law of 1991.

Provision for end of service indemnity for non-Omani employees is made in accordance with the terms of the Oman Labour Law 2003 and its amendments and is based on current remuneration rates and cumulative years of service at the statement of financial position date. 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 current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

2.11 Foreign currency transactions*(a) Functional and presentation currency*

Items included in the Company's financial statements are measured using Rial Omani which is the currency of the Sultanate of Oman, being the economic environment in which the Company operates (the functional currency). The financial statements are prepared in Rial, rounded to the nearest thousands.

(b) 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.

2.12 Taxation

Income tax on the result for the year comprises current and deferred tax. 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 tax is calculated in respect of temporary differences between the carrying amounts for financial reporting purposes and the tax bases. The amount of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.13 Dividend distribution

The Company's dividend distribution policy encompasses the following factors:

- (a)* provide shareholders a reasonable return commensurate with the size of their investment in the Company; and
- (b)* build reserves to achieve a strong capital base.

After due consideration of the above factors the Company's management proposes the amount of dividend to the Board and shareholders at the Annual General Meeting subject to the approval of the Central Bank of Oman.

Dividends are recognised as liability in the period approved.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)****2 Summary of significant accounting policies (continued)****2.14 Directors' remuneration**

The Directors' remuneration is governed as set out by the Commercial Companies Law and the rules prescribed by the Capital Market Authority.

The Annual General Meeting determines and approves 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 transfers to the legal reserve and the optional reserve and notionally calculating or distributing the dividends to shareholders at not less than 5% of capital. Such fees shall not exceed Rial 200,000 in one year. The sitting fee for each Director does not exceed Rial 10,000 in one year.

2.15 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.

2.16 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expense, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Company's chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

2.17 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.

2.18 Derecognition of financial assets

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

- (a) the right to receive cash flows from the asset have expired; or
- (b) the Company has transferred its 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
- (c) 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.

3 Financial risk management

The Company believes that sound risk management practices are imperative in ensuring that strong results can be delivered to stakeholders. The Company aims to ensure that its risk management structure provides the infrastructure for it to be able to implement best practices according to the size of its operations.

The Company aims to follow a strategy of minimising risk in order to reduce its vulnerability to adverse market conditions and this is reflected in the risk appetite set by the Board of Directors and implemented by Management. The low assumption of risk is mainly achieved through diversification of the asset portfolio.

Risk management functions are carried out by the Risk Manager. The Company has adequate policies and procedures which address credit risk, liquidity risk and interest rate risk, which arise from the Company's business.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)****3 Financial risk management (continued)****3.1 Credit risk**

As the Company's core business is lease financing, credit risk forms the significant risk to which the Company is exposed. Credit risk is the risk that counterparty will cause financial loss to the Company by failing to discharge an obligation.

The Company does not consider credit risk with respect to balances placed with banks to be significant as the Company is currently dealing with only reputable banks of minimum investment grade of P-2 of Moody's or equivalent.

Similarly, management believe that credit risk related to advances and other receivables is minimum as the Company has a long history of dealing with its dealers and other suppliers.

The Company employs a range of policies and practices to manage, limit and control concentration of credit risk to individual counter parties, groups and industries with respect to its lease receivables.

The level of credit risk in relation to each individual counterparty and its associates is structured by placing a maximum ceiling on exposure levels for each grade. Such risks are monitored on a regular basis and review reports are placed before the Board of Directors.

3.1.1 Credit risk measurement

The Company's credit policy aims to ensure that the target portfolio credit loss will be less than 1% of the portfolio for the current size and structure of the portfolio and the macroeconomic situation. The Board of Directors reviews this loss norm annually along with the management.

In case of the portfolio of exposure to small and medium size enterprises (SMEs), the credit risk for individual counterparties are assessed at inception of the lease through a grading methodology tailored to various categories of counterparties. These have been developed internally and the customers are rated on certain predefined financial and non-financial parameters. The grading takes into account factors including the customers experience in similar business, management quality, net worth, availability of audited financial statements, key performance indicators and ratios, trade references, the industry in which the customer operates and its vulnerability to economic downturn, as well as the customer's past track record with the Company (in case of existing clients). The grading parameters are reviewed annually and amended as considered appropriate in line with the Company's assessment of market risk trends.

Credit risk in the case of the retail portfolio is assessed at the inception of the lease on the basis of the net disposable income of the counterparty, stability of employment in case of salaried clients and income levels from business /other sources for other categories of customers.

3.1.2 Credit risk control and mitigation policies

The Company's portfolio comprises leases of vehicles and equipment wherein the lending is collateralised by the assets financed. The Company holds collaterals in respect of lease receivable exposures in the form of joint title to the vehicles and equipment financed. The values against these collaterals are written down on a yearly basis based on the estimated useful life of these assets and considering guidelines issued by the Central Bank of Oman. In addition to these collaterals, the Company also holds additional security in the form of property collaterals for certain leases in order to strengthen its risk position.

In order to minimise credit loss, wherever deemed necessary, additional credit enhancements such as charges on immovable and moveable assets, personal guarantees of the major shareholders, corporate guarantee of the parent company in case of group exposures, key man life insurance and assignment of contract proceeds are obtained.

The Company's credit policy identifies certain categories of customers as "negative customers" and they are not considered for financial assistance. These include known defaulters, customers with poor market standing and other categories based upon statistics published by the Central Bank of Oman.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.2 Credit risk control and mitigation policies (continued)

The repayments are primarily through post-dated cheques. Dishonoured cheques are monitored closely and follow up is ensured.

The Company has clear policies in place to identify early warning signals and to initiate appropriate and timely remedial actions. Some of the early warning indicators are listed below:

- frequent dishonour of cheques
- inability to reach the customer over phone or in person
- lack of response to written communications
- utilised limits in excess of authorised limits as disclosed by BCSB data
- inability to obtain current financials
- adverse market feedback

3.1.3 Impairment and provisioning policies

The Company's lease receivable impairment policy is as set out in note 2.3. The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its lease portfolio. The main component of this allowance is specific loss as determined under CBO guidelines and IFRS requirements and relates to individual customer exposures. A collective loan loss allowance is established by using available historical experience, management judgment and peer statistics for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans.

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	2014 Rial '000	2013 Rial '000
Exposure		
Bank balances	1,302	1,919
Statutory deposit	170	130
Net investment in financing activities	160,869	145,960
Advances excluding prepayments	675	646
Credit risk exposure relating to off balance sheet items		
Bank guarantees	1,003	356
Approved lease commitments	6,143	5,501
Total exposure	170,162	154,512

The above table represents a worst case scenario of credit risk exposure of the Company at 31 December 2014 and 2013 without taking into account any collateral held.

Management is confident in its ability to continue to control and sustain acceptable exposure of credit risk to the Company resulting from both its net investment in finance leases and advances.

3.1.5 Finance lease receivables

As at the year end, the details of gross exposure (net of unearned lease income) are set out below:

	2014 Rial '000	2013 Rial '000
Neither past due nor impaired	139,716	123,654
Past due but not impaired	21,655	21,522
Impaired	10,530	10,128
Total	171,901	155,304

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

3 Financial risk management (continued)

3.1.5 Finance lease receivables (continued)

(a) *Finance lease receivables neither past due nor impaired*

81%(2013- 79%) of the portfolio at 31 December 2014represents this category.

	2014 Rial '000	2013 Rial '000
Fair value of collaterals	106,743	106,108

(b) *Finance lease receivables past due but not impaired*

	2014 Rial '000	2013 Rial '000
Past due up to 30 days	14,045	14,724
Past due 30 to 60 days	5,506	4,562
Past due 60 to 90 days	2,104	2,236
Total	21,655	21,522
Fair value of collaterals	14,599	17,328

(c) *Finance lease receivables individually impaired*

	2014 Rial '000	2013 Rial '000
Past due individually impaired	10,530	10,128
Fair value of collaterals	4,147	5,329

The Company evaluates its collateral value by applying a fixed annual reduction in the value of equipment and vehicles held as collateral. Value of property held as collateral is obtained from external valuations held. The lower of 50% of appraised values and forced sale value is considered.

For the purpose of this disclosure, the fair value of collateral considered is restricted to a maximum amount of the secured lease receivable.

3.1.6 Repossessed collaterals

The Company does not hold any repossessed collateral at 31 December 2014and 2013other than land and buildings shown as property pending sale as set out in note 13.

3.1.7 Concentration of risks

(a) *Customer concentration of net investmentin finance leasesby type of customer*

	2014 Rial '000	2013 Rial '000
Individuals	91,770	83,409
Corporate	69,099	62,551
	160,869	145,960

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

3 Financial risk management (continued)

3.1.7 Concentration of risks(continued)

(b) Geographical concentration

All the Company's financial assets and liabilities are concentrated within the Sultanate of Oman, except for loans from foreign banks from GCC states, to the extent of Rial 13.3 million (2013-Rial 9.4million) denominated in US Dollars.

(c) Economic sector concentration of net investment in finance leases and working capital finance

	2014	2013
	Rial '000	Rial '000
Trading, contracting and services	59,256	55,403
Individuals	91,770	83,409
Manufacturing	9,843	7,148
	160,869	145,960

3.2 Market risk

3.2.1 Cash flow interest rate risk

Interest rate risk arises from the possibility of changes in interest rates and mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period.

As the Company has significant interest-bearing financial assets and liabilities, the Company's income and operating cash flows are substantially dependent on market interest rates. The Company's finance lease receivables and deposits from corporate entities carry fixed interest rates. The interests on these items are fixed at the inception. Accordingly, any changes in applicable market rates would not expose the Company to interest rate risk. However, the Company's bank borrowings carry variable interest rates which expose the Company to cash flow interest rate risk.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios the Company calculates the impact on its profit or loss of a 1% interest rate increase. The simulation is presented to the Asset and Liability Committee (ALCO) on a monthly basis.

Based on the simulation performed at the year end, the impact on the Company's profit after tax of a 1% increase in interest rates would be a maximum reduction of Rial0.867 million(2013- Rial0.738 million).

3.2.2 Foreign currency risk

Foreign currency risk is the risk arising from future commercial transactions or recognised financial assets or liabilities being denominated in a currency that is not the Company's functional currency. The majority of the Company's transactions are denominated in the functional currency. The Company's foreign currency transactions are restricted to certain long-term borrowings amounting to Rial13.3 million (2013-Rial9.4million) which are denominated in US Dollar. The functional currency is effectively fixed to the US Dollar and accordingly foreign exchange risk is considered minimal. The Company has the option to enter into forward exchange contracts, where necessary, to hedge any significant risks arising from foreign currency transactions.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

3 Financial risk management (continued)

3.3 Liquidity risk

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Company's inability to meet its obligations and commitments on the due dates and to replace funds when they are withdrawn or facilities expire.

3.3.1 Liquidity risk management process

The Company's liquidity is managed by the Finance Department on a day to day basis. The Company has a liquidity risk policy and contingency funding plan approved by the Board of Directors. The liquidity position is currently monitored by the ALCO on a monthly basis, including: (i) day to day funding to ensure that daily requirements are met; (ii) monitoring liquidity gaps and ratios as per the documented liquidity risk policy guidelines; and (iii) monitoring, reviewing and reporting liquidity position in line with the Company's contingency funding plan. Management monitors to ensure availability of funds to meet the Company's credit commitments.

3.3.2 Funding approach

Sources of funding are regularly reviewed by the ALCO to maintain diversification through measures such as using both long-term and short-term borrowings, increasing the number of lenders, developing additional products like corporate deposits and seeking fixed interest rates for longer tenure. Ongoing discussions with bankers, depositors and potential depositors indicate that sufficient liquidity will be in place for the foreseeable future to enable the Company to meet its financial obligations as they fall due.

3.3.3 Cash flows

The table below exhibits the cash flows payable by the Company under financial liabilities by remaining contractual maturity. The amounts show gross undiscounted cash flows.

At 31 December 2014	Up to 1 month Rial '000	> 1 month to 1 year Rial '000	> 1 year to 5 years Rial '000	Non-fixed maturity Rial '000	Total Rial '000
Bank borrowings and deposits	20,479	69,912	35,242	-	125,633
Creditors and accruals	4,605	-	-	-	4,605
Financial liabilities	25,084	69,912	35,242	-	130,238
Financial assets	7,181	66,831	126,267	1,818	202,097

At 31 December 2013	Up to 1 month Rial '000	> 1 month to 1 year Rial '000	> 1 year to 5 years Rial '000	Non-fixed maturity Rial '000	Total Rial '000
Bank borrowings and deposit:	16,580	63,964	34,094	-	114,638
Creditors and accruals	3,098	-	-	-	3,098
Financial liabilities	19,678	63,964	34,094	-	117,736
Financial assets	7,554	56,676	110,150	1,717	176,097

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

3 Financial risk management (continued)

3.3.4 Off balance sheet items

	2014 Rial '000	2013 Rial '000
Approved lease commitments (note 24)	6,143	5,501
Bank guarantee (note 25)	1,003	356
Total exposure	7,146	5,857

The Company expects the majority of the approved lease commitments to be exercised by the customers and disbursed by the Company within 3months (2013- 3 months) of the reporting date.

Bank guarantees of RO 281 will mature before 31 December 2015 and RO 722 will mature after 31 December 2015.

3.4 Fair values

The carrying amounts, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year approximate their fair values. The fair values of long-term bank borrowings approximate their carrying amounts as these either carry variable interest rates in line with current market rates or interest rates linked to LIBOR. The fair value of fixed deposits is not considered to be materially different from their carrying amount in view of the duration of these deposits which does not exceed 2 years and carry commercial interest rate.

None of the Company's financial instruments are carried in the statement of financial position at fair value. The Company's financial assets and financial liabilities are carried in the statement of financial position at amortised cost.

The fair values of the land and buildings are disclosed in note 15.

3.5 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Company also has the objective with respect to capital of meeting the requirements of the Central Bank of Oman, the Regulatory Authority. The Company was required to increase its issued share capital to Rial25 million before 31December 2016. As of the statement of financial position date, the Company's paid up capital is in line with CBO guidelines.

In accordance with Article 106 of the Commercial Companies Law of Oman of 1974, annual appropriations of 10% of the profit for the year are made to the legal reserve until the accumulated balance of the reserve is equal to at least one third of the Company's paid-up share capital.

The Company monitors its gearing ratio in order to maintain it within the limits prescribed by the Regulatory Authority.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

4 Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on lease receivables

The Company reviews its lease receivable portfolio to assess impairment on a quarterly basis; the Company follows guidelines issued by Central Bank of Oman and the requirements of applicable IFRSs. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgements 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 lease receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics, peer statistics and objective evidence of impairment similar to those in the portfolio when scheduling its future 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.

5 Operating segments

The Company has only one reportable segment namely, leasing activities, all of which are carried out in Oman. Although the Company has individual and corporate customers, the entire lease portfolio is managed internally as one operating segment. All the Company's funding and costs are common. All relevant information relating to this reportable segment is disclosed in the statement of financial position, statement of comprehensive income and notes to the financial statements.

6 Other operating income

	2014 Rial '000	2013 Rial '000
Penal charges received	235	182
Income from pre-closed leases	191	174
Miscellaneous income	391	216
	817	572

7 General and administrative expenses

	2014 Rial '000	2013 Rial '000
Employee related expenses	3,052	2,528
Advertising and sales promotion	155	154
Computer maintenance	83	137
Directors' remuneration	138	124
Professional fees and subscriptions	113	105
Communication costs	103	76
Occupancy costs	56	46
Directors' sitting fees	28	36
Other office expenses	319	320
	4,047	3,526

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

7 General and administrative expenses (continued)

Total employee related expenses included under general and administrative expenses comprise:

	2014 Rial '000	2013 Rial '000
Salaries and allowances	2,525	2,178
Other benefits	226	132
Social security costs	122	70
Staff terminal benefits	112	110
Other incentives	67	38
	3,052	2,528

The total number of employees as at 31 December 2014 is 153 (2013 -147).

8 Income tax

Components of taxation for the year

The Company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the tax rate of 12% on the taxable profits in excess of Rial30,000. The reconciliation between the tax expense and the profit before taxation is as follows:

(a) Statement of comprehensive income

	2014 Rial '000	2013 Rial '000
Current tax:		
current year	860	842
prior years	33	-
	893	842
Deferred tax	(156)	(200)
Tax expense	737	642

(b) Reconciliation of income tax

	2014 Rial '000	2013 Rial '000
Accounting profit before income tax	5,940	5,435
Income tax expense computed at applicable tax rates	709	649
Tax charge for prior years	33	-
Others	(5)	(7)
Tax expense	737	642

(c) Status of tax assessments

Tax assessments up to year 2009 are complete. Assessment for tax years 2010 to 2013 are subject to agreement with the Oman Taxation Authorities. The Directors are of the opinion that the additional taxes assessed, if any, would not be material to the Company's financial position as at 31 December 2014.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

9 Earnings per share and net assets per share

The calculation of earnings per share is as follows:

	2014	2013
Profit for the year attributable to the ordinary shareholders (Rial '000)	5,203	4,793
Net assets (Rial '000)	38,747	36,050
Weighted average number of shares number of shares (Rial '000)	256,808	256,808
Earnings per share (Rial)	0.020	0.019
Net assets per share (Rial)	0.151	0.144

Earnings per share are calculated by dividing the net profit for the year by the number of shares outstanding during the year. Net assets per share are calculated by dividing net assets by the number of shares in issue at 31 December 2014 of 256,808,303 (2013- 250,544,686).

No figure for diluted earnings per share has been presented as the Company has not issued any instruments which would have an impact on earnings per share when exercised.

10 Cash and bank balances

	2014 Rial '000	2013 Rial '000
Bank current accounts	1,302	1,919
Cash in hand	26	24
	1,328	1,943

11 Statutory deposit

The Company is required to increase capital deposit by Rial 200,000 over a period of five years with the Central Bank of Oman (CBO) in accordance with the applicable licensing requirements. The company paid Rial 40,000 (2013-Rial 40,000) during the year as capital deposit to CBO and accordingly capital deposit increased to Rial 170,000 (2013-Rial 130,000). During the year, the deposit earned effective interest at the rate of 1.5 % per annum (2013 -1.5%).

12 Net investment in financing activities

	2014 Rial '000	2013 Rial '000
Gross investment in finance leases	195,148	180,464
Working capital finance	5,130	1,445
Unearned lease income	(28,377)	(26,605)
	171,901	155,304
Provision for impairment of lease receivable	(10,026)	(8,388)
Unrecognised contractual income	(1,006)	(956)
Net investment in finance leases	160,869	145,960

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

12 Net investment in financing activities (continued)

(a) Contractual income is not recognised by the Company on impaired finance leases to comply with the rules, regulations and guidelines issued by the Central Bank of Oman. At 31 December 2014, net investment in leases where contractual income has not been recognised was Rial10.53 million (2013 -Rial10.13million). At31 December 2014, the provisions for impairment and unrecognised contractual income were Rial11.03million(2013 -Rial9.34million).

(b) *Net investment in rescheduled finance leases was as below:*

	2014 Rial '000	2013 Rial '000
Net investment in rescheduled finance leases	2,603	1,913

(c) Lease repayments due more than one year from the reporting date amount to Rial103.7million(2013-Rial93.5 million).

(d) *Unearned lease income:*

	2014 Rial '000	2013 Rial '000
1 January	26,605	24,159
Additions during the year	17,035	16,412
Recognised during the year	(15,263)	(13,966)
31 December	28,377	26,605

(e) *Provision for impairment of lease receivables:*

	2014 Rial '000	2013 Rial '000
1 January	8,388	6,878
Provided during the year	2,615	2,321
Released during the year	(977)	(801)
Written off during the year	-	(10)
31 December	10,026	8,388

(f) *Unrecognised contractual income:*

	2014 Rial '000	2013 Rial '000
1 January	956	818
Additions during the year	283	632
Recognised during the year	(233)	(494)
31 December	1,006	956

(g) The current and non-current amounts are disclosed in note 27.

13 Property pending sale

Property pending sale represents land and building acquired by the Company in part settlement of amounts due by borrowers following the conclusion of all credit recovery procedures available to the Company. These properties are expected to be sold in the year 2015.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

14 Tax liabilities

	Note	2014 Rial '000	2013 Rial '000
Deferred tax asset	14(a)	(628)	(474)
Deferred tax liability	14(b)	89	91
Provision for income tax	14(c)	860	949
Net tax liabilities		321	566

(a) Deferred tax asset

Deferred tax asset arises in respect of provision for impairment of lease receivables. The deferred tax asset recognised in the statement of financial position and the movements during the year are as follows:

	2014 Rial '000	2013 Rial '000
1 January	474	358
Addition during the year	154	116
31 December	628	474

(b) Deferred tax liability

Deferred tax liability arises in respect of revaluation of land and buildings. The deferred tax liability recognised in the statement of financial position and the movements during the year are as follows:

	2014 Rial '000	2013 Rial '000
1 January	91	175
Released during the year	(2)	(84)
31 December	89	91

(c) Provision for income tax

The provision for income tax recognised in the statement of financial position and the movements during the year are as follows:

	2014 Rial '000	2013 Rial '000
1 January	949	719
Income tax charge for the year	893	842
Paid during the year	(982)	(612)
31 December	860	949

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

15 Property and equipment

	Freehold land Rial '000	Buildings Rial '000	Furniture, fixtures and equipment Rial '000	Motor vehicles Rial '000	Total Rial '000
Cost or valuation					
1 January 2014	955	300	1,149	170	2,574
Additions	-	-	132	-	132
Deductions	-	-	(10)	(25)	(35)
31 December 2014	<u>955</u>	<u>300</u>	<u>1,271</u>	<u>145</u>	<u>2,671</u>
Accumulated depreciation					
1 January 2014	-	255	866	125	1,246
Charge for the year	-	43	219	44	306
Disposal	-	-	(10)	(25)	(35)
31 December 2014	<u>-</u>	<u>298</u>	<u>1,075</u>	<u>144</u>	<u>1,517</u>
Net book value					
31 December 2014	<u>955</u>	<u>2</u>	<u>196</u>	<u>1</u>	<u>1,154</u>

	Freehold land Rial '000	Buildings Rial '000	Furniture, fixtures and equipment Rial '000	Motor vehicles Rial '000	Total Rial '000
Cost or valuation					
1 January 2013	955	300	1,047	170	2,472
Additions	-	-	102	-	102
31 December 2013	<u>955</u>	<u>300</u>	<u>1,149</u>	<u>170</u>	<u>2,574</u>
Accumulated depreciation					
1 January 2013	-	212	668	77	957
Charge for the year	-	43	198	48	289
31 December 2013	<u>-</u>	<u>255</u>	<u>866</u>	<u>125</u>	<u>1,245</u>
Net book value					
31 December 2013	<u>955</u>	<u>45</u>	<u>283</u>	<u>45</u>	<u>1,328</u>

A valuation of the land and buildings was last performed by an independent valuer on 31 December 2007 on an open market value basis. During the year management, has reviewed the carrying amount of the land and building and assess that these amounts approximate their fair values (level – 3 fair values). The revaluation surplus net of applicable deferred income tax was credited to other comprehensive income and is shown in “revaluation reserve”. If the land and building were stated on the historical cost basis, the amount would be Rial0.020 million (2013- Rial 0.020 million).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

16 Share capital

The authorised share capital of the Company comprises 300,000,000 ordinary shares of Baizas100each (2013 - 300,000,000 ordinary share of Baizas 100 each). The Company's issued and fully paid-up share capital amounts to 256,808,303 ordinary shares of Baizas100each (2013 - 250,544,686 ordinary shares of Baizas 100 each).

Shareholders who own 10% or more of the Company's share capital are:

	2014		2013	
	Number of shares held	%	Number of shares held	%
Al Hilal Investment Co. LLC	101,148,765	39.4	98,681,723	39.4
Oman International Development and Investment Company SAOG	65,650,136	25.6	60,146,475	24.0

17 Legal reserve

In accordance with Article 106 of the Commercial Companies Law of Oman of 1974, annual appropriations of 10% of the profit for the year are made to the legal reserve until the accumulated balance of the reserve is equal to at least one third of the Company's share capital. This reserve is not available for distribution.

18 Creditors and accruals

	2014 Rial '000	2013 Rial '000
Creditors	3,508	2,114
Accruals and other liabilities	1,097	984
	4,605	3,098

19 Staff terminal benefits

The movement in staff terminal benefits during the year is as follows:

	2014 Rial '000	2013 Rial '000
1 January	550	517
Provision during the year	112	110
Payments during the year	(120)	(77)
31 December	542	550

20 Bank borrowings

	2014 Rial '000	2013 Rial '000
Bank overdraft	480	608
Short-term loans	74,434	69,917
Long-term loans	26,403	22,244
	101,317	92,769

(a) During the year, interest was charged on the above borrowings at rates ranging between 2% and 6% per annum (2013-2.5% and 6.5% per annum).

(b) At the reporting date, all outstanding borrowings were secured by a first priority pari-passu floating charge on the assets of the Company, including but not limited to the Company's receivables from its customers.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

21 Fixed deposits

At 31 December 2014, the Company has accepted fixed deposits from corporate entities based in Oman for a total amount of Rial19.77 million (2013-Rial18.09 million), with tenure ranging from 1 to 2 years, as per guidelines issued by the Central Bank of Oman. These deposits carry interest rates between 2.75% and 4.35% per annum. The carrying amount includes interest accrued till the end of the year.

22 Proposed dividends

The Board of Directors at the forthcoming Annual General Meeting propose a cash dividend of 10% and 2.5% stock dividend on the shares outstanding on the dividend record date. The cash dividend is expected to amount to Rial 2,568,083 and stock dividend is expected to amount to Rial 642,020 (2013- 10% cash dividend amounting to Rial 2,505,460 and stock dividend of Rial 626,375). These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year of approval.

23 Cash and cash equivalents

	2014 Rial '000	2013 Rial '000
Bank overdrafts	(480)	(608)
Cash and bank balances – note 10	<u>1,328</u>	<u>1,943</u>
	<u>848</u>	<u>1,335</u>

24 Commitments

	2014 Rial '000	2013 Rial '000
Approved lease commitments	<u>6,143</u>	<u>5,501</u>

Approved lease commitments will be paid within 30 days from the date of lease creation.

25 Contingencies

In its ordinary course of business, the Company has arranged for the following in favour of its customers from banks in Oman maturing by 2017.

	2014 Rial '000	2013 Rial '000
Bank guarantee	<u>1,003</u>	<u>356</u>

26 Related party transactions

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

26 Related party transactions (continued)

The Company has entered into transactions in the ordinary course of business with other related parties in which certain directors have a significant influence and with senior management. Such transactions are at mutually agreed terms. Significant related party transactions during the year ended 31 December 2014 were as follows:

	2014 Rial '000	2013 Rial '000
General and administrative expenses	3	4
Sales incentive paid	336	264
<i>Directors' fees and remuneration</i>		
Sitting fees	28	36
Proposed remuneration	138	124
<i>Year end balances arising on the above</i>		
Net investment in finance lease	13	3
Proposed remuneration to directors	138	124
Remuneration & period end balances to key members of management during the period		
Salaries and other benefits	505	500
Net investment in finance lease and advances	41	33

Directors remuneration for the year 2013 paid in the year 2014 was in the amount of Rial 125,000 (2013- Rial 97,000).

27 Maturity analysis of significant assets and liabilities

At 31 December 2014	Up to 1 month Rial '000	> 1 month to 1 year Rial '000	> 1 year Rial '000	Non-fixed maturity Rial '000	Total Rial '000
Assets					
Cash and bank balances	1,328	-	-	-	1,328
Statutory deposit	-	-	-	170	170
Net investment in financing activities	5,815	51,365	103,689	-	160,869
Advances and prepayments	-	1,648	-	-	1,648
Property pending sale	-	131	-	-	131
Property and equipment	-	-	-	1,154	1,154
Total assets	7,143	53,144	103,689	1,324	165,300
Equity and Liabilities					
Equity	-	-	-	38,747	38,747
Liabilities:					
Bank borrowings and fixed deposit	20,479	67,494	33,112	-	121,085
Creditors and accruals	4,605	-	-	-	4,605
Staff terminal benefits	-	242	-	300	542
Tax liabilities	-	860	-	(539)	321
Total equity and liabilities	25,084	68,596	33,112	38,508	165,300
Liquidity gap	(17,941)	(15,452)	70,577	(37,184)	
Cumulative liquidity gap	(17,941)	(33,393)	37,184	-	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

27 Maturity analysis of significant assets and liabilities (continued)

At 31 December 2013	Up to 1 month Rial '000	> 1 month to 1 year Rial '000	> 1 year Rial '000	Non-fixed maturity Rial '000	Total Rial '000
Assets					
Cash and bank balances	1,943	-	-	-	1,943
Statutory deposit	-	-	-	130	130
Net investment in financing activities	4,470	47,982	93,508	-	145,960
Advances and prepayments	-	1,627	-	-	1,627
Property pending sale	-	131	-	-	131
Property and equipment	-	-	-	1,328	1,328
Total assets	6,413	49,740	93,508	1,458	151,119
Equity and Liabilities					
Equity	-	-	-	36,050	36,050
Liabilities:					
Bank borrowings and fixed deposit	16,580	61,786	32,489	-	110,855
Creditors and accruals	3,098	-	-	-	3,098
Staff terminal benefits	190	-	-	360	550
Tax liabilities	-	566	-	-	566
Total equity and liabilities	19,868	62,352	32,489	36,410	151,119
Liquidity gap	(13,455)	(12,612)	61,019	(34,952)	
Cumulative liquidity gap	(13,455)	(26,067)	34,952	-	

28 Effective interest rate analysis of financial assets and financial liabilities

At 31 December 2014	0% to less than 5% Rial '000	5% to less than 10% Rial '000	10% to less than 15% Rial '000	15% and above Rial '000	Total Rial '000
Assets					
Cash and bank balances	1,328	-	-	-	1,328
Statutory deposit	170	-	-	-	170
Advance excluding prepayments	675	-	-	-	675
Net investment in financing activities	149	86,952	73,481	287	160,869
Total	2,322	86,952	73,481	287	163,042
Liabilities					
Bank borrowings and fixed deposit	120,605	480	-	-	121,085
Creditors and accruals	4,605	-	-	-	4,605
Total	125,210	480	-	-	125,690

At 31 December 2013	0% to less than 5% Rial '000	5% to less than 10% Rial '000	10% to less than 15% Rial '000	15% and above Rial '000	Total Rial '000
Assets					
Cash and bank balances	1,943	-	-	-	1,943
Statutory deposit	130	-	-	-	130
Advance excluding prepayments	646	-	-	-	646
Net investment in financing activities	300	70,778	74,392	490	145,960
Total	3,019	70,778	74,392	490	148,679
Liabilities					
Bank borrowings and fixed deposit	110,247	608	-	-	110,855
Creditors and accruals	3,098	-	-	-	3,098
Total	113,345	608	-	-	113,953

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

29 Effective interest rate analysis of financial assets and financial liabilities (continued)

Interest rate sensitivity analysis

The Company's interest rate sensitivity position, based on the contractual reprising or maturity dates is set out below:

31 December 2014	Effective interest rate %	Up to 1 month Rial '000	> 1 month to 1 year Rial '000	> 1 year Rial '000	Non-fixed maturity Rial '000	Non-interest bearing Rial '000	Total Rial '000
Assets							
Cash and bank balances	-	-	-	-	-	1,328	1,328
Statutory deposit	1.5%	-	-	-	170	-	170
Advance and prepayments	-	-	-	-	-	675	675
Net investment in financing activities	0% to 18%	5,815	51,365	103,689	-	-	160,869
Total assets		5,815	51,365	103,689	170	2,003	163,042
Liabilities							
Bank borrowings and fixed deposit	2.5% to 6%	20,479	67,494	33,112	-	-	121,085
Creditors and accruals	-	-	-	-	-	4,605	4,605
Total equity and liabilities		20,479	67,494	33,112	-	-	125,690
Interest rate sensitivity gap		(14,664)	(16,129)	70,577	170	(2,602)	37,352
Cumulative interest rate sensitivity gap		(14,664)	(30,793)	39,784	39,954	37,352	

At 31 December 2013	Effective interest rate %	Up to 1 month Rial '000	> 1 month to 1 year Rial '000	> 1 year Rial '000	Non-fixed maturity Rial '000	Non-interest bearing Rial '000	Total Rial '000
Assets							
Cash and bank balances	-	-	-	-	-	1,943	1,943
Statutory deposit	1.5%	-	-	-	130	-	130
Advance and prepayments	-	-	-	-	-	646	646
Net investment in financing activities	0% to 18%	4,470	47,982	93,508	-	-	145,960
Total assets		4,470	47,982	93,508	130	2,589	148,679
Liabilities							
Bank borrowings and fixed deposit	2.5% to 7.0%	16,580	61,786	32,489	-	-	110,855
Creditors and accruals		-	-	-	-	3,098	3,098
Total equity and liabilities		16,580	61,786	32,489	-	3,098	113,953
Interest rate sensitivity gap		(12,110)	(13,804)	61,019	130	(509)	34,726
Cumulative interest rate sensitivity gap		(12,110)	(25,914)	35,105	35,235	34,726	