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Independent auditors' report to the Shareholders of National Finance Company SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of National Finance Company SAOG ("the Company") set out on pages 2 to 28, which comprise the statement of financial position as at 31 December 2016, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Auditors' 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 the Sultanate of 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 Matter

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 year. 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.

Credit risk and impairment of lease receivables

For a better understanding of the accounting policies and amounts please refer to note 2.4 (a) on pages 8 to 9 and 3.1.2 and 3.1.3 on pages 12 and 13 and note 12 on pages 20 and 21 to the financial statements.



Impairment is a subjective area due to the level of judgement applied by the management in determining the impairment allowance. Due to the significance of lease receivables (representing 97% of total assets) and the related estimation uncertainty, this is considered a key audit matter.

Judgement is applied to determine appropriate parameters and assumptions used to calculate impairment. Key judgement include the probability of default, the valuation of collateral for secured lending and the future cash flows arising from customers who have defaulted. In addition, we also focused on individually significant exposures that either continued to be, have become, or were at risk of being individually impaired.

Our response

Our audit procedures included:

- assessing controls over monitoring of leases and evaluating the methodologies, inputs and assumptions used by the Company in calculating collectively assessed impairments, and assessing the adequacy of impairment allowances for individually assessed leases by reviewing individually significant leases.
- testing operation of key controls over the credit grading and monitoring process, to assess if the risk grades allocated to counterparties were appropriately identified, on a timely basis.
- challenging appropriateness of the key management assumptions used in the impairment calculations for lease receivables, which included performing credit assessments for selected lease receivables and assessing the reasonableness of the realisation of collateral and other possible sources of repayment;
- comparing key assumptions to progress against business plans and our own understanding of the relevant industries and business environment. We also compared them, where significant, to externally derived evidence such as audited accounts of the leases and carrying value of assets leased, for assessing the appropriateness of the collateral values held by the Company; and
- assessing whether financial statement disclosures appropriately reflect the Company's exposure to credit risk.

Other Matter

The financial statements of the Company for the year ended 31 December 2015, were audited by another auditor who expressed an unmodified opinion on those financial statements dated 10 March 2016.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report.

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



In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of 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.

In preparing the financial statements, management 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 management 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.

Auditors' 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 auditors' 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.

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 auditors' 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 auditors' 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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 auditors' 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 regulatory requirements

We report that the financial statements of the Company as at and for the year ended 31 December 2016, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of Commercial Companies Law of 1974, as amended.

9 March 2017

Paul Callaghan

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 Rial '000	2015 Rial '000
Income from financing activities		17,211	15,879
Finance cost		(5,062)	(3,728)
Net finance income		12,149	12,151
Other operating income	6	1,100	903
Total income		13,249	13,054
Operating expenses			
General and administrative expenses	7	(4,497)	(4,431)
Depreciation	15	(168)	(127)
		(4,665)	(4,558)
Profit before impairment and tax		8,584	8,496
Net impairment loss on lease receivables	12	(1,509)	(1,676)
Bad debts written back - net		138	12
Profit before tax		7,213	6,832
Income tax expense	8	(864)	(811)
Profit after tax		6,349	6,021
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Gain on revaluation of building – net of tax	15	-	264
Incremental depreciation – net of tax	15	26	22
Total comprehensive income		6,375	6,307
Basic and diluted earnings per share (Rial)- restated	9	0.024	0.022

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

Independent auditors' report- page 1.

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 Rial '000	2015 Rial '000
ASSETS			
Cash and bank balances	10	2,347	806
Net investment in financing activities	12	192,529	185,503
Advances and prepayments		1,569	1,604
Deferred tax	14	770	745
Property pending sale	13	-	84
Property and equipment	15	1,755	1,481
Statutory deposit	11	250	210
Total assets		199,220	190,433
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital	16	27,113	26,323
Revaluation reserve		867	893
Legal reserve	17	4,793	4,158
Retained earnings		12,882	11,090
Total equity		45,655	42,464
LIABILITIES			
Creditors and accruals	18	4,348	5,618
End of service benefits	19	620	583
Tax liabilities	14	1,113	1,029
Bank borrowings	20	131,626	126,877
Fixed deposits	21	15,858	13,862
Total liabilities		153,565	147,969
Total equity and liabilities		199,220	190,433
Net assets per share (Rial)	9	0.168	0.157

These financial statements were approved and authorised for issue in accordance with a resolution of the Board of Directors on 25 January 2017 and signed on their behalf by:

TAYA BIN JANDAL BIN ALI
CHAIRMAN

ROBERT PANCRAAS
CHIEF EXECUTIVE OFFICER

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Independent auditors' report- page 1.

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital Rial '000	Revaluation reserve Rial '000	Legal reserve Rial '000	Retained earnings Rial '000	Total Rial '000
1 January 2016	26,323	893	4,158	11,090	42,464
<i>Total comprehensive income:</i>					
Profit for the year	-	-	-	6,349	6,349
<i>Other comprehensive income</i>					
Incremental depreciation – net of tax (note 15)	-	(26)	-	26	-
<i>Total Comprehensive income</i>	-	(26)	-	6,375	6,349
<i>Transactions with owners:</i>					
Stock dividend (note 22)	790	-	-	(790)	-
Cash dividend paid (note 22)	-	-	-	(3,158)	(3,158)
Total transactions with owners	790	-	-	(3,948)	(3,158)
Transfer to legal reserve (note 17)	-	-	635	(635)	-
31 December 2016	27,113	867	4,793	12,882	45,655

	Share capital Rial '000	Revaluation reserve Rial '000	Legal reserve Rial '000	Retained earnings Rial '000	Total Rial '000
1 January 2015	25,681	651	3,556	8,859	38,747
<i>Total comprehensive income:</i>					
Profit for the year	-	-	-	6,021	6,021
<i>Other comprehensive income</i>					
Incremental depreciation – net of tax (note 15)	-	(22)	-	22	-
<i>Total Comprehensive income</i>	-	(22)	-	6,045	6,021
Gain on revaluation of building – net of tax (note 15)	-	264	-	-	264
<i>Transactions with owners:</i>					
Stock dividend (note 22)	642	-	-	(642)	-
Cash dividend paid (note 22)	-	-	-	(2,568)	(2,568)
Total transactions with owners	642	-	-	(3,210)	(2,568)
Transfer to legal reserve (note 17)	-	-	602	(602)	-
31 December 2015	26,323	893	4,158	11,090	42,464

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

Independent auditors' report- page 1.

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 Rial '000	2015 Rial '000
Cash flows from operating activities			
Profit before tax		7,213	6,832
Adjustments for:			
Depreciation	15	168	127
End of service benefits	19	99	134
Impairment on lease receivables		1,509	1,676
(Profit)/Loss on sale of property pending sale		(24)	10
(Profit)/Loss on sale of assets		(35)	-
Bad debts written back - net		(138)	(12)
Finance cost		5,062	3,728
		<u>13,854</u>	<u>12,495</u>
End of service paid	19	(62)	(93)
Changes in:			
Investment in financing activities		(8,397)	(26,298)
Advances and prepayments		35	44
Creditors and accruals		(1,270)	1,013
Interest paid		(4,877)	(3,725)
Income tax paid	14 (c)	(805)	(881)
Net cash used in operating activities		<u>(1,522)</u>	<u>(17,445)</u>
Cash flows from investing activities			
Proceeds from sale of vehicles and property pending sale		143	37
Purchase of property and equipment	15	(443)	(154)
Net cash used in investing activities		<u>(300)</u>	<u>(117)</u>
Cash flows from financing activities			
Proceeds from bank borrowings		5,655	24,930
Proceeds / (repayments) from / of fixed deposits		1,959	(5,855)
Statutory deposit		(40)	(40)
Dividend paid	22	(3,158)	(2,568)
Net cash generated from financing activities		<u>4,416</u>	<u>16,467</u>
Net change in cash and cash equivalents		<u>2,594</u>	<u>(1,095)</u>
Cash and cash equivalents at the beginning of the year		(247)	848
Cash and cash equivalents at the end of the year	23	<u>2,347</u>	<u>(247)</u>

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

Independent auditors' report- page 1.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016****1.1 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 listing on the Muscat Securities 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.

1.2 Status of merger with Oman Orix Leasing Company SAOG (“OOLC”)

In October 2016, the Company sent a letter to OOLC expressing their interest in exploring the possibility of a strategic collaboration by way of merger between the two entities. The Board of Directors of both companies decided to conduct an initial study and appoint a Joint Working Group (“JWG”) comprising key management of both companies, to engage in the initial review. JWG is in the process of evaluating the merger proposal.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements 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 have been prepared in accordance with 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 the relevant disclosure requirements of Capital Market Authority (“CMA”) and applicable regulations of the Central Bank of Oman.

(b) Basis of preparation

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

(c) Use of estimates and judgements

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.

(d) Standards, amendments and interpretation effective in 2016 and relevant for the Company’s operations:

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that would have a material impact on the financial statements of the Company.

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

Certain new accounting standards and interpretations have been published that are mandatory for the Company’s accounting periods beginning on or after 1 January 2016 and have not been early adopted by the Company. The Company’s assessment of the impact of these new standards and interpretations is set out below.

IFRS 9, ‘Financial instruments’ (effective from 1 January 2018)

In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016** *(continued)***2 Summary of significant accounting policies (continued)**

Following the changes approved by the IASB in July 2014, the Company's management is in the process of assessing the impact of application of changes in IFRS 9 'Financial instruments' on the financial statements of the Company.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising any 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. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of profit or loss.

Other standards and interpretations that have been issued but are not yet mandatory, and have not been early adopted by the Company, are not expected to have a material impact on the Company's financial statements.

2.2 Revenue recognition**2.2.1 Leased Assets**

Lease in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets owned by the Company and subject to finance leases are included in the financial statements as "Net investment in finance leases" at an amount equivalent to the present value of the future minimum lease payments plus initial direct costs, discounted using the interest rate implicit in the lease. The difference between the aggregate lease contract receivable and the cost of the leased assets plus initial direct costs is recorded as unearned lease finance income. The initial direct costs include amounts such as commissions and legal fees that are incremental and 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.

2.2.2 Revenue recognition

The lease finance income is recognised in the statement of profit or loss using the effective interest rate method. The effective interest rate is the rate that 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.

Interest on 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.

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

2.3 Financial assets and liabilities**2.3.1 Non-derivative financial assets***(i) Recognition and measurement of financial assets*

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability. The Company classifies non-derivative financial assets into loans and receivables.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016** *(continued)*

2 Summary of significant accounting policies (continued)

2.3 Financial assets and liabilities (continued)

2.3.1 Non-derivative financial assets(continued)

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any accumulated impairment losses. Loans and receivables comprise net investment in finance lease, working capital finance, other receivables, statutory deposits and cash and bank balances.

(ii) Derecognition of financial assets

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

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

2.3.2 Non-derivative financial liabilities

The Company initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method. Other financial liabilities comprise long term loans, bank overdrafts and short term loans, corporate and security deposits and creditors, accruals and other liabilities.

2.4 Impairment of financial assets

(a) 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016** *(continued)*

2 Summary of significant accounting policies (continued)

2.4 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (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 profit or loss.

The calculation of the present value of the estimated future cash flows of a financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral where applicable, 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 financial asset is uncollectible, it is written off against the related provision for impairment. Such financial assets 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 in the statement of profit or loss in the year of receipt.

2.5 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 and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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 profit or loss during the financial period in which they are incurred.

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

	Years
Buildings	10
Furniture, fixtures and equipment	4
Motor vehicles	3

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016** *(continued)***2 Summary of significant accounting policies (continued)**

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 profit or loss.

2.6 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.

2.7 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 profit or loss over the repayment period of the borrowings using the effective interest rate method.

2.8 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.

2.9 Creditors and accruals

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

2.10 End of service benefits and leave entitlements.

Provision for end of service indemnity for non-Omani employees has been 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's entitlements to annual leave and leave passage are recognised when they accrue to the 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.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Law of 1991 are recognised as an expense in the statement of profit or loss as incurred.

In accordance with the provisions of IAS 19, Employee Benefits, management carries out an exercise to assess the present value of the Company's obligations as of the reporting date, in respect of employees' end of service benefits payable to determine whether it is not materially different from the provision made. Under this method, an assessment is made of an employee's expected service period with the Company and the expected basic salary at the date of leaving the service, discounted over the period of remaining expected period using the country's risk free rate.

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 Omani, rounded to the nearest thousand.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016** *(continued)***2 Summary of significant accounting policies (continued)****2.11 Foreign currency transactions (continued)***(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 profit or loss.

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 Board of Directors propose the amount of dividend to be approved by shareholders at the Annual General Meeting subject to the approval of the Central Bank of Oman.

Dividends are recognised as liability in the period in which these are approved.

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, in accordance with article 106 of the CCL shall not exceed 5% of the annual net profit after transfers to the legal 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)****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 policies and procedures which address credit risk, liquidity risk and interest rate risk and market risk, which arise from the Company's business.

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 believes 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 portfolio credit loss will be less than the target percentage as determined and agreed by the Board of Directors. 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 immoveable and moveable assets, personal guarantees of the major shareholders, corporate guarantee of

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

the parent company in case of group exposures, key man life insurance and assignment of contract proceeds are obtained.

3 Financial risk management (continued)

3.1 Credit risk (continued)

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.

The repayments are primarily through post-dated cheques. Dishonoured cheques are monitored closely and proper 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

The Company's lease receivable impairment policy is as set out in note 2.4. 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

	2016 Rial '000	2015 Rial '000
Exposure - Funded		
Bank balances	2,344	724
Statutory deposit	250	210
Net investment in financing activities	192,529	185,503
Advances	754	678
	<u>195,877</u>	<u>187,115</u>
Exposure - Unfunded		
Bank guarantees	1,113	1,154
Approved non- cancellable lease commitments	3,852	6,509
Total exposure	<u>200,842</u>	<u>194,778</u>

The above table represents a worst case scenario of credit risk exposure of the Company at 31 December 2016 and 2015 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:

	2016 Rial '000	2015 Rial '000
Neither past due nor impaired	162,083	158,996
Past due but not impaired	31,215	28,383
Impaired	11,243	9,952
Total	<u>204,541</u>	<u>197,331</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

3 Financial risk management (continued)

3.1 Credit risk (continued)

(a) Finance lease receivables neither past due nor impaired

79% (2015- 81%) of the portfolio as at 31 December 2016 represents this category.

	2016 Rial '000	2015 Rial '000
Fair value of collaterals	130,091	114,819

(b) Finance lease receivables past due but not impaired

	2016 Rial '000	2015 Rial '000
Past due up to 30 days	20,252	20,027
Past due 30 to 60 days	6,452	4,752
Past due 60 to 90 days	4,511	3,604
Total	31,215	28,383
Fair value of collaterals	20,757	16,634

(c) Finance lease receivables individually impaired

	2016 Rial '000	2015 Rial '000
Past due individually impaired	11,243	9,952
Fair value of collaterals	5,564	3,837

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 exposure, amortised cost of the asset 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 2016 and 2015 other 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 investment in finance leases by type of customer

	2016 Rial '000	2015 Rial '000
Individuals	110,759	106,900
Corporate	81,770	78,603
	192,529	185,503

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016** *(continued)*

3 Financial risk management (continued)

3.1 Credit risk (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 10.3 million (2015 - Rial 6.3 million) denominated in US Dollars.

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

	2016 Rial '000	2015 Rial '000
Trading, contracting and services	66,658	68,791
Individuals	110,759	106,900
Manufacturing	15,112	9,812
	192,529	185,503

3.2 Market risk

3.2.1 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 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 Rial 1.013 million (2015- Rial 0.912 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 Rial 10.3 million (2015-Rial 6.3 million) which are denominated in US Dollar. The functional currency is fixed to the US Dollar and accordingly foreign exchange risk is considered minimal. The Company has entered into a three month rolling forward cover arrangement in order to manage the foreign currency risk arising in relation to the Company's borrowings denominated in US Dollar. The fair value of forward cover as at 31 December 2016 is Rial 10.3 million.

3.3.3 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

3 Financial risk management (continued)

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.

3.2 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.

3.3.1 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 2016	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	11,174	109,731	26,579	-	147,484
Creditors and accruals	4,348	-	-	-	4,348
Financial liabilities	15,522	109,731	26,579	-	151,832
Financial assets	7,224	74,840	155,185	1,818	239,067
At 31 December 2015	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	29,433	54,484	56,822	-	140,739
Creditors and accruals	5,618	-	-	-	5,618
Financial liabilities	35,051	54,484	56,822	-	146,357
Financial assets	6,877	72,623	149,151	1,814	230,465

3.3.2 Off balance sheet items

	2016 Rial '000	2015 Rial '000
Approved lease commitments (note 24)	3,852	6,509
Bank guarantees (note 25)	1,113	1,154
Total exposure	4,965	7,663

The Company expects the majority of the approved lease commitments to be exercised by the customers and disbursed by the Company within 3 months (2015- 3 months) of the reporting date.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016** *(continued)*

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 3 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 to these financial statements.

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 meeting the capital requirements of the Central Bank of Oman, the Regulatory Authority. The Company was required to increase its issued share capital to Rial 25 million before 31 December 2016. As of the statement of financial position date, the Company's paid up capital is in line with Central Bank of Oman 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. This reserve is not available for distribution.

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

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 the Central Bank of Oman and the requirements of applicable IFRSs. In determining whether an impairment loss should be recorded in the statement of profit or loss, 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 profit or loss and notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

6 Other operating income

	2016 Rial '000	2015 Rial '000
Penal charges received	290	235
Income from pre-closed leases	229	217
Miscellaneous income	581	451
	<u>1,100</u>	<u>903</u>

7 General and administrative expenses

	2016 Rial '000	2015 Rial '000
Employee related expenses	3,474	3,399
Advertising and sales promotion	54	68
Computer maintenance	94	80
Directors' remuneration and sitting fees	200	200
Professional fees and subscriptions	131	168
Communication costs	114	116
Occupancy costs	84	60
Other office expenses	346	340
	<u>4,497</u>	<u>4,431</u>

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

	2016 Rial '000	2015 Rial '000
Salaries and allowances	2,885	2,787
Other benefits	247	273
Social security costs	170	144
End of service benefits (note 19)	99	134
Other incentives	73	61
	<u>3,474</u>	<u>3,399</u>

The total number of employees as at 31 December 2016 is 159 (2015-150).

8 Taxation

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% (2015 – 12%) on the taxable profits in excess of Rials 30,000.

(a) Statement of comprehensive income

	2016 Rial '000	2015 Rial '000
Current tax:		
Current year	995	907
Prior years charge (refund)	(106)	21
	<u>889</u>	<u>928</u>
Deferred tax:		
Tax expense	(25)	(117)
	<u>864</u>	<u>811</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

8 Taxation (continued)

(b) *Reconciliation of taxation*

The reconciliation between the tax expense and the profit before taxation is as follows:

	2016 Rial '000	2015 Rial '000
Accounting profit before income tax	7,213	6,832
Income tax expense computed at applicable tax rates	862	816
Others	2	(5)
Tax expense	864	811

(c) *Status of tax assessments*

Tax assessments up to year 2009 are complete and agreed with the taxation authority. Assessments of the Company for tax years 2010 to 2015 are subject to agreement with the Oman Taxation Authorities. The Directors are of the opinion that the additional taxes assessed in respect of open tax assessments, if any, would not be material to the Company's financial position as at 31 December 2016.

9 Basic and diluted earnings per share and net assets per share

The calculation of earnings per share is as follows:

	2016	2015
Profit for the year attributable to the ordinary shareholders (Rial '000)	6,349	6,021
Net assets (Rial '000)	45,655	42,464
Weighted average number of shares during the year ('000)	269,151	269,151
Number of shares at the year end ('000)	271,125	271,125
Basic and diluted earnings per share (Rial)	0.024	0.022
Net assets per share (Rial)	0.168	0.157

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year of 269,151,151 shares. Net assets per share are calculated by dividing net assets by the number of shares in issue at 31 December 2016 of 271,125,365 shares (2015- 263,228,510 shares).

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

	2016 Rial '000	2015 Rial '000
Bank current accounts	2,344	724
Cash in hand	3	82
	2,347	806

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 Rials 40,000 (2015-Rial 40,000) during the year as capital deposit to CBO and accordingly capital deposit

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016** *(continued)*

11 Statutory deposit (continued)

increased to Rials 250,000 (2015-Rial 210,000). During the year, the deposit earned effective interest at the rate of 1% per annum (2015-1%).

12 Net investment in financing activities

	2016 Rial '000	2015 Rial '000
Gross investment in finance leases	227,944	219,549
Working capital finance	9,305	9,102
Unearned lease income	(32,708)	(31,320)
	204,541	197,331
Impairment of lease receivables	(11,088)	(10,885)
Unrecognised contractual income	(924)	(943)
Net investment in finance leases	192,529	185,503

(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 2016, net investment in leases where contractual income has not been recognised was Rial 11.24 million (2015 – Rial 9.95 million). At 31 December 2016, the provision for impairment of lease receivables and unrecognised contractual income were Rial 12.01 million (2015 –Rial 11.83 million).

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

	2016 Rial '000	2015 Rial '000
Net investment in restructured finance leases	1,872	2,321

(c) Lease repayments due more than one year from the reporting date amount to Rial 126.0 million (2015-Rial 112.2 million).

(d) *Unearned lease income:*

	2016 Rial '000	2015 Rial '000
1 January	31,320	28,377
Additions during the year	18,599	18,822
Recognised during the year	(17,211)	(15,879)
31 December	32,708	31,320

(e) *Impairment of lease receivables:*

	2016 Rial '000	2015 Rial '000
1 January	10,885	10,026
Provided during the year	2,235	2,523
Released during the year	(726)	(847)
Written off during the year	(1,306)	(817)
31 December	11,088	10,885

(f) *Unrecognised contractual income:*

	2016 Rial '000	2015 Rial '000
1 January	943	1,006
Additions during the year	403	319
Recognised during the year	(422)	(382)
31 December	924	943

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 *(continued)*

(g) The current and non-current amounts are disclosed in note 27 to these financial statements.

13 Property pending sale

Property pending sale represents land and buildings acquired by the Company in part settlement of amounts due by borrower following the conclusion of all credit recovery procedures available to the Company. These properties are shown at the lower of cost and net realisable value.

14 Tax liabilities

	Note	2016 Rial '000	2015 Rial '000
Deferred tax asset	14(a)	(770)	(745)
Deferred tax liability	14(b)	118	122
Provision for income tax	14(c)	995	907
Net tax liabilities		343	284

(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:

	2016 Rial '000	2015 Rial '000
1 January	745	628
Addition during the year	25	117
31 December	770	745

(b) Deferred tax liability

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

	2016 Rial '000	2015 Rial '000
1 January	122	89
Additions during the year	-	36
Released during the year	(4)	(3)
31 December	118	122

(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:

	2016 Rial '000	2015 Rial '000
1 January	907	860
Income tax charge for the year	893	928
Paid during the year	(805)	(881)
31 December	995	907

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (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 2016	955	600	1,419	145	3,119
Additions	-	-	240	203	443
Disposals	-	-	-	(145)	(145)
31 December 2016	955	600	1,659	203	3,417
Accumulated depreciation					
1 January 2016	-	323	1,171	144	1,638
Charge for the year	-	30	138	-	168
Disposals	-	-	-	(144)	(144)
31 December 2016	-	353	1,309	-	1,662
Net book value					
31 December 2016	955	247	350	203	1,755
	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 2015	955	300	1,271	145	2,671
Additions	-	-	154	-	154
Disposals	-	-	(6)	-	(6)
Revaluation	-	300	-	-	300
31 December 2015	955	600	1,419	145	3,119
Accumulated depreciation					
1 January 2015	-	298	1,075	144	1,517
Charge for the year	-	25	102	-	127
Disposals	-	-	(6)	-	(6)
31 December 2015	-	323	1,171	144	1,638
Net book value					
31 December 2015	955	277	248	1	1,481

A valuation of the land and buildings was last performed by an independent valuer on 28 February 2015 on an open market value basis. 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 buildings were stated on the historical cost basis, the amount would be Rial 0.020 million (2015- Rial 0.020 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

16 Share capital

The authorised share capital of the Company comprises 300,000,000 ordinary shares of Baizas 100 each (2015- 300,000,000 ordinary share of Baizas 100 each). The Company's issued and fully paid-up share capital amounts to 271,125,365 ordinary shares of Baizas 100 each (2015- 263,228,510 ordinary shares of Baizas 100 each).

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

	2016		2015	
	Number of shares held	%	Number of shares held	%
Al Hilal Investment Co. LLC	106,787,801	39.4	103,677,478	39.4
Oman International Development and Investment Company SAOG	69,310,130	25.6	67,291,389	25.6

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

	2016 Rial '000	2015 Rial '000
Creditors	2,976	4,205
Accruals and other liabilities	1,372	1,413
	4,348	5,618

19 End of service benefits

The movement in end of service benefit benefits during the year is as follows:

	2016 Rial '000	2015 Rial '000
1 January	583	542
Provision during the year (note 7)	99	134
Payments during the year	(62)	(93)
31 December	620	583

20 Bank borrowings

	2016 Rial '000	2015 Rial '000
Bank overdraft	-	1,053
Short-term loans	46,342	46,104
Current portion of long term loans	65,392	25,809
Long-term loans	19,892	53,911
	131,626	126,877

(a) During the year, interest was charged on the above borrowings at rates ranging between 2.65% and 5.5% per annum (2015-1.95% 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 2016 *(continued)*

20 Bank borrowings (continued)

(c) Foreign currency forward contracts

As at 31 December 2016, the foreign currency forward contract commitment amounted to RO 10.3 million [USD 26.8 million] (2015 - RO 6.3 M [USD 16.5 M]) to repay US Dollar term loans. The aggregate fair value of the rights and obligations of the foreign currency forward contracts, which were mainly in US Dollars at 31 December 2016 have been recognised in the financial statements.

21 Fixed deposits

At 31 December 2016, the Company has accepted fixed deposits from corporate entities based in Oman for a total amount of Rial 15.86 million (2015-Rial 13.86 million), with tenure ranging from 1 to 3 years, as per guidelines issued by the Central Bank of Oman. These deposits carry interest rates between 2.7% and 5.2% per annum (2015 – 2.1% to 4.25% 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 14% and stock dividend of 3% on the shares outstanding on the dividend record date. The cash dividend is expected to amount to Rial 3,795,755 and stock dividend is expected to amount to Rial 813,376. 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. The cash dividend paid for 2015 amounted to Rial 3,158,742 and stock dividend issued amounted to Rial 789,686.

23 Cash and cash equivalents

	2016 Rial '000	2015 Rial '000
Bank overdrafts	-	(1,053)
Cash and bank balances – (note 10)	<u>2,347</u>	<u>806</u>
	<u>2,347</u>	<u>(247)</u>

24 Commitments

	2016 Rial '000	2015 Rial '000
Approved lease commitments	<u>3,852</u>	<u>6,509</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 2018.

	2016 Rial '000	2015 Rial '000
Bank guarantees	<u>1,113</u>	<u>1,154</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 2016 (continued)

26 Related party transactions (continued)

The Company has entered into transactions in the ordinary course of business with related parties. Such transactions are at mutually agreed terms. Significant related party transactions during the year ended 31 December 2016 were as follows:

	2016 Rial '000	2015 Rial '000
General and administrative expenses	3	3
Finance Lease	-	2,500
Sales incentive paid	127	184
Purchase of fixed assets	190	-
Sale of fixed assets	149	-
Directors' fees and remuneration		
Directors' sitting fees and proposed remuneration	200	200
Year end balances arising on the above		
Proposed remuneration to directors	175	175
Remuneration & year end balances to key members of management during the year		
Salaries and other benefits	660	584

27 Maturity analysis of assets and liabilities

The table below analyses the contractual maturities of assets and liabilities at the reporting date. The amounts disclosed are gross and undiscounted.

At 31 December 2016	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	2,347	-	-	-	2,347
Statutory deposit	-	-	-	250	250
Net investment in financing activities	5,719	60,748	126,062	-	192,529
Advances and prepayments	-	1,569	-	-	1,569
Deferred Tax	-	-	-	770	770
Property and equipment	-	-	-	1,755	1,755
Total assets	8,066	62,317	126,062	2,775	199,220
Equity and liabilities					
Total equity	-	-	-	45,655	45,655
Liabilities:					
Bank borrowings and fixed deposits	11,174	109,731	26,579	-	147,484
Creditors and accruals	-	4,348	-	-	4,348
End of service benefits	-	255	-	365	620
Tax liabilities	-	995	-	118	1,113
Total equity and liabilities	11,174	115,329	26,579	46,138	199,220
Liquidity gap	(3,108)	(53,012)	99,483	(43,363)	
Cumulative liquidity gap	(3,108)	(56,120)	43,363	-	

The Company had unutilized long-term credit facilities amounting to RO 49.1 million available as on 31 December 2016 (2015 – Rial 49.4 million) to mitigate the impact of negative mismatch. The Company expects, given past experience, local practice and discussions with lenders that short term borrowing facilities will be extended, renewed or replaced on expiry and fixed deposits maturing within one year will be renewed if required as well as other measures to meet the gap in maturity. Accordingly, management have prepared these financials on going concern basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

27 Maturity analysis of significant assets and liabilities (continued)

At 31 December 2015	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	806	-	-	-	806
Statutory deposit	-	-	-	210	210
Net investment in financing activities	5,430	67,877	112,196	-	185,503
Advances and prepayments	-	1,604	-	-	1,604
Deferred Tax	-	-	-	745	745
Property pending sale	-	84	-	-	84
Property and equipment	-	-	-	1,481	1,481
Total assets	6,236	69,565	112,196	2,436	190,433
Equity and liabilities					
Total equity	-	-	-	42,464	42,464
Liabilities:					
Bank borrowings and fixed deposits	29,433	54,484	56,822	-	140,739
Creditors and accruals	-	5,618	-	-	5,618
End of service benefits	-	261	-	322	583
Tax liabilities	-	907	-	122	1,029
Total equity and liabilities	29,433	61,270	56,822	42,908	190,433
Liquidity gap	(23,197)	8,295	55,374	(40,472)	
Cumulative liquidity gap	(23,197)	(14,902)	40,472	-	

28 Effective interest rate analysis of financial assets and financial liabilities

At 31 December 2016	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	2,347	-	-	-	2,347
Statutory deposit	250	-	-	-	250
Advances	754	-	-	-	754
Net investment in financing activities	413	141,948	50,120	48	192,529
Total	3,764	141,948	50,120	48	195,880
Liabilities					
Bank borrowings and fixed deposits	142,027	5,457	-	-	147,484
Creditors and accruals	4,348	-	-	-	4,348
Total	146,375	5,457	-	-	151,832
At 31 December 2015	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	806	-	-	-	806
Statutory deposit	210	-	-	-	210
Advances	678	-	-	-	678
Net investment in financing activities	2,827	132,768	49,818	90	185,503
Total	4,521	132,768	49,818	90	187,197
Liabilities					
Bank borrowings and fixed deposits	139,686	1,053	-	-	140,739
Creditors and accruals	5,618	-	-	-	5,618
Total	146,357	1,053	-	-	146,357

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (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 2016	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	-	2,347	-	-	-	-	2,347
Statutory deposit	1%	-	-	-	250	-	250
Advances		754	-	-	-	-	754
Net investment in financing activities	0-18%	5,719	60,748	126,062	-	-	192,529
Total assets		8,820	60,748	126,062	250	-	195,880
Liabilities							
Bank borrowings and fixed deposits	2.7 - 6%	11,174	109,731	26,579	-	-	147,484
Creditors and accruals		-	-	-	-	4,348	4,348
Total liabilities		11,174	109,731	26,579	-	4,348	151,832
Interest rate sensitivity gap		(2,354)	(48,983)	99,483	250	(4,348)	44,048
Cumulative interest rate sensitivity gap		(2,354)	(51,337)	48,146	48,396	44,048	
31 December 2015							
Assets							
Cash and bank balances		-	-	-	-	806	806
Statutory deposit	1%	-	-	-	210	-	210
Advances	-	-	-	-	-	678	678
Net investment in financing activities	0-18%	5,430	67,877	112,196	-	-	185,503
Total assets		5,430	67,877	112,196	210	1,484	187,197
Liabilities							
Bank borrowings and fixed deposits	1.95% - 6.5%	29,433	54,484	56,822	-	-	140,739
Creditors and accruals		-	-	-	-	5,618	5,618
Total liabilities		29,433	54,484	56,822	-	5,618	146,357
Interest rate sensitivity gap		(24,003)	13,393	55,374	210	(4,134)	40,840
Cumulative interest rate sensitivity gap		(24,003)	(10,610)	44,764	44,974	40,840	