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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 32, which comprise the statement of financial position as at 31 December 2017, the 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 2017, 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 3.4 (a) on pages 9 and 10 and note 4.1 on pages 12 to 15 and note 14 on page 26 to the financial statements.

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Continued from Page 1

Impairment is a highly 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 judgements include the probability of default, the valuation of collateral for secured lending and the estimation of future cash flows arising from customers who have defaulted.

Our response

Our audit procedures to address the key audit matter included:

- assessing controls over monitoring of leases and comparing the Company's estimate of collectively assessed impairment provision with our independent estimate, and assessing the adequacy of impairment allowances for individually assessed leases by reviewing individually significant leases.
- testing the 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 the appropriateness of 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 estimated amounts recoverable from collateral and other possible sources of repayment; and
- assessing whether financial statement disclosures appropriately reflect the Company's exposure to credit risk.

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.

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

Continued on Page 1(b)

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.

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- 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 other legal and regulatory requirements

We report that the financial statements of the Company as at and for the year ended 31 December 2017, 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.

28 February 2018

Paul Callaghan

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 Rial '000	2016 Rial '000
Income from financing activities		17,340	17,211
Finance cost		(5,784)	(5,062)
Net finance income		11,556	12,149
Other operating income	8	1,270	1,100
Total income		12,826	13,249
Operating expenses			
General and administrative expenses	9	(4,674)	(4,497)
Depreciation	15	(285)	(168)
		(4,959)	(4,665)
Profit before impairment and tax		7,867	8,584
Net impairment loss on lease receivables	14	(297)	(1,509)
Bad debts written back - net		354	138
Profit before tax		7,924	7,213
Income tax expense	10	(904)	(864)
Profit after tax		7,020	6,349
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Incremental depreciation – net of tax		27	26
Total comprehensive income		7,047	6,375
Basic and diluted earnings per share (Rial)- restated	11	0.025	0.023

The notes on pages 6 to 32 form an integral part of these financial statements.

Independent auditors' report is set out on pages 1 to 1(c).

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 Rial '000	2016 Rial '000
ASSETS			
Cash and bank balances	12	1,897	2,347
Net investment in financing activities	14	200,539	192,529
Advances and prepayments		1,421	1,569
Deferred tax	10	779	770
Property and equipment	15	1,640	1,755
Statutory deposit	13	250	250
Total assets		206,526	199,220
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital	16	27,926	27,113
Revaluation reserve		840	867
Legal reserve	17	5,495	4,793
Retained earnings		14,619	12,882
Total equity		48,880	45,655
LIABILITIES			
Creditors and accruals	18	5,368	4,348
End of service benefits	19	546	620
Tax liabilities	10	1,163	1,113
Bank borrowings	20	128,761	131,626
Fixed deposits	21	21,808	15,858
Total liabilities		157,646	153,565
Total equity and liabilities		206,526	199,220
Net assets per share (Rial)	11	0.175	0.168

These financial statements were approved and authorised for issue in accordance with a resolution of the Board of Directors on 21 January 2018 and signed on their behalf by:

TAYA BIN JANDAL BIN ALI
CHAIRMAN

ROBERT PANCRAAS
CHIEF EXECUTIVE OFFICER

The notes on pages 6 to 32 form an integral part of these financial statements.

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NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital Rial '000	Revaluation reserve Rial '000	Legal reserve Rial '000	Retained earnings Rial '000	Total Rial '000
1 January 2017	27,113	867	4,793	12,882	45,655
<i>Total comprehensive income:</i>					
Profit for the year	-	-	-	7,020	7,020
<i>Other comprehensive income</i>					
Incremental depreciation – net of tax (note 15)	-	(27)	-	27	-
Total Comprehensive income	-	(27)	-	7,047	7,020
<i>Transactions with owners:</i>					
Stock dividend (note 22)	813	-	-	(813)	-
Cash dividend paid (note 22)	-	-	-	(3,795)	(3,795)
Total transactions with owners	813	-	-	(4,608)	(3,795)
Transfer to legal reserve (note 17)	-	-	702	(702)	-
31 December 2017	27,926	840	5,495	14,619	48,880

	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	-
Total Comprehensive income	-	(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

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Independent auditors' report is set out on pages 1 to 1(c).

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 Rial '000	2016 Rial '000
Cash flows from operating activities			
Profit before tax		7,924	7,213
Adjustments for:			
Depreciation	15	285	168
End of service benefits	19	17	99
Impairment on lease receivables		297	1,509
Profit on sale of property pending sale		-	(24)
Profit on sale of assets		-	(35)
Bad debts written back - net		(354)	(138)
Finance cost		5,784	5,062
		<u>13,953</u>	<u>13,854</u>
Changes in:			
Investment in financing activities		(7,953)	(8,397)
Advances and prepayments		148	35
Creditors and accruals		1,020	(1,270)
Interest paid		(5,478)	(4,877)
Income tax paid		(863)	(805)
End of service benefits paid		(91)	(62)
Net cash generated / (used in) operating activities		<u>736</u>	<u>(1,522)</u>
Cash flows from investing activities			
Proceeds from sale of vehicles and property pending sale		-	143
Purchase of property and equipment	15	(170)	(443)
Net cash used in investing activities		<u>(170)</u>	<u>(300)</u>
Cash flows from financing activities			
Proceeds from bank borrowings		107,897	67,318
Repayment of bank borrowings		(111,071)	(56,499)
Proceeds / (repayments) from / of fixed deposits		5,462	1,959
Statutory deposit		-	(40)
Dividend paid	22	(3,795)	(3,158)
Net cash (used in)/generated from financing activities		<u>(1,507)</u>	<u>4,416</u>
Net change in cash and cash equivalents		<u>(941)</u>	<u>2,594</u>
Cash and cash equivalents at the beginning of the year		2,347	(247)
Cash and cash equivalents at the end of the year	23	<u>1,406</u>	<u>2,347</u>

The notes on pages 6 to 32 form an integral part of these financial statements.

Independent auditors' report is set out on pages 1 to 1(c).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****2 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) Historical cost convention

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 5. 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.

3 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.

3.1 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.

3.2 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 instalments 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****3 Summary of significant accounting policies** *(continued)***3.3 Financial assets and liabilities****3.3.1 Non-derivative financial assets***(i) Recognition and measurement*

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. 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.

(ii) Classification

Financial assets comprise net investment in finance lease, working capital finance, other receivables, statutory deposits and cash and bank balances.

(iii) Derecognition

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.

(iv) Offsetting

Financial assets 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.

3.3.2 Non-derivative financial liabilities*(i) Recognition and measurement*

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.

(ii) Classification

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.

(iii) Derecognition

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****3 Summary of significant accounting policies** *(continued)***Non-derivative financial liabilities** *(continued)**(iv) Offsetting*

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 settle the liability.

3.4 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 Company of financial assets is impaired. A financial asset or a Company 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 Company of financial assets that can be reliably estimated. Objective evidence that a financial asset or Company 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 Company of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including adverse changes in the payment status of borrowers in the Company; or national or local economic conditions that correlate with defaults on the assets in the Company.

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 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 Company 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 Company. 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 the Company's 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 Company 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3 Summary of significant accounting policies *(continued)*

3.4 Impairment of financial assets *(continued)*

(a) Assets carried at amortised cost *(continued)*

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.

If an event occurring after the impairment was recognized caused the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through statement of profit or loss.

3.5 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

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.

3.6 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.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.7 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****3. Summary of significant accounting policies** *(continued)***3.8 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.

3.9 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.

3.10 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.

3.11 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.

(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.

3.12 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****3. Summary of significant accounting policies** *(continued)***3.13 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.

3.14 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.

3.15 Derivatives

Derivatives include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives are measured at fair value in the statement of financial position.

3.16 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.

4 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.

4.1 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 minimal as the Company has a long history of dealing with its dealers and other suppliers.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****4. Financial risk management (continued)**

The Company employs a range of policies and practices to manage limit and control concentration of credit risk to individual counter parties 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.

4.1.1 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.

4.1.2 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 the parent company in case of Company 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.

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

4.1.3 Impairment

The Company's lease receivable impairment policy is as set out in note 3.4. 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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4 Financial risk management *(continued)*

4.1.3 Impairment *(continued)*

relates to individual customer exposures. A collective loan loss allowance is established by using available historical experience, management judgment and peer statistics for Companies of homogeneous assets in respect of losses that have been incurred but have not been identified on loans.

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

	2017 Rial '000	2016 Rial '000
Exposure - Funded		
Bank balances	1,894	2,344
Statutory deposit	250	250
Net investment in financing activities	200,539	192,529
Advances	723	754
	<u>203,406</u>	<u>195,877</u>
Exposure - Unfunded		
Bank guarantees	979	1,113
Approved non- cancellable lease commitments	4,461	3,852
Total exposure	<u>5,440</u>	<u>200,842</u>

The above table represents a worst case scenario of credit risk exposure of the Company at 31 December 2017 and 2016 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 its net investment in finance leases and advances.

4.1.5 Finance lease receivables

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

	2017 Rial '000	2016 Rial '000
Neither past due nor impaired	159,641	162,083
Past due but not impaired	37,460	31,215
Impaired	16,047	11,243
Total	<u>213,148</u>	<u>204,541</u>

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

75% (2016- 79%) of the portfolio as at 31 December 2017 represents this category.

	2017 Rial '000	2016 Rial '000
Fair value of collaterals	<u>98,368</u>	<u>130,091</u>

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

	2017 Rial '000	2016 Rial '000
Past due up to 30 days	21,558	20,252
Past due 30 to 60 days	10,768	6,452
Past due 60 to 89 days	5,134	4,511
Total	<u>37,460</u>	<u>31,215</u>
Fair value of collaterals	<u>22,437</u>	<u>20,757</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4 Financial risk management *(continued)*

4.1 Credit risk *(continued)*

(c) Finance lease receivables individually impaired

	2017 Rial '000	2016 Rial '000
Past due individually impaired	16,047	11,243
Fair value of collaterals	6,506	5,564

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 independent external valuations. The lower of exposure, amortised cost of the asset and forced sale value is considered to be estimated fair value of collateral held.

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

4.1.6 Concentration of risks

(a) Customer concentration of net investment in finance leases by type of customer

	2017 Rial '000	2016 Rial '000
Individuals	117,419	110,759
Corporate	83,120	81,770
	200,539	192,529

(b) Geographical concentration

All the Company's financial assets and liabilities are concentrated within the Sultanate of Oman, except for loans from foreign banks operating in other GCC states, to the extent of Rial 11.6 million (2016 - Rial 10.3 million), which are denominated in US Dollars.

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

	2017 Rial '000	2016 Rial '000
Trading, contracting and services	64,386	66,658
Individuals	117,419	110,759
Manufacturing	18,734	15,112
	200,539	192,529

4.2 Market risk

4.2.1 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 (note 29).

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4 Financial risk management *(continued)*

4.2 Market risk *(continued)*

4.2.1 Interest Rate Risk *(continued)*

Based on the simulation performed at the year end, the impact on the Company's profit before tax of a 1% increase in interest rates would be a maximum reduction in profit after tax of Rial 1.058 million (2016- Rial 1.013 million).

4.2.2 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 11.6 million (2016-Rial 10.3 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 2017 is Rial 11.6 million.

4.3 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.

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.

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.

4.3.1 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 2017	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	13,914	98,259	38,396	-	150,569
Creditors and accruals	-	5,368	-	-	5,368
Financial liabilities	13,914	103,627	38,396	-	155,937
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	11,174	114,079	26,579	-	151,832

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4 Financial risk management *(continued)*

4.3 Liquidity risk *(continued)*

4.3.2 Off balance sheet items

	2017 Rial '000	2016 Rial '000
Approved lease commitments (note 24)	4,461	3,852
Bank guarantees (note 25)	979	1,113
Total exposure	5,440	4,965

The Company expects the majority of the approved lease commitments to be exercised by the customers and disbursed by the Company within 3 months (2016- 3 months) of the reporting date.

4.4 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 5 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.

4.5 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.

5 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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****5 Critical accounting estimates and judgements (continued)**

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 Company that correlate with defaults on assets in the Company. 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.

6 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Company has not early adopted the new standards in preparing these financial statements. The following standards are expected to have a material impact on the Company's financial statements in the period of initial application.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Company will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Based on assessments undertaken to date, the Company will apportion the existing General Provision towards the IFRS9 impairment provision requirement. The excess provision after apportionment, if any, would be transferred to the Impairment reserve as per CBO guidelines.

Based on the assessment undertaken to date, the total estimated impairment provision required from adoption of IFRS 9 on the opening balance of the Company on 1 January 2018 is approximately Rial 9.23 million. The above assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Company to revise its accounting processes and internal controls and these changes are not yet complete;
- Company has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework;
- Company is refining and finalizing its models for ECL calculations; and
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalizes its first financial statements that include the date of initial application.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition will be recognised in the opening retained earnings of subsequent period. The Company has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

The adoption of IFRS 9 has resulted in changes in Company's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company. Further details on the specific IFRS 9 accounting policies that will be applied to the future periods (as well as the current IAS 39 accounting policies applied in this period).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****6 Standards issued but not yet effective (continued)****IFRS 9 Financial Instruments (continued)*****Classification and measurement of financial instruments***

There will be no changes to classification and measurement of finance leases and finance leases are consistently classified in accordance with IAS 17 'Leases'. However, lease receivables are subject to derecognition and impairment requirements of IFRS 9. There will be no changes to the classification and measurement of financial liabilities.

The new policies that will be adopted as a result of implementation of IFRS9 with effect from 1 January 2018 are as follows:

Non-derivative financial assets***Amortised cost and effective interest rate***

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses (ECL) and includes transaction costs, premiums or discounts and fees that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in the statement of profit or loss.

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 instalments collected.

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

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss (FVPL) are expensed in the statement of profit or loss.

Immediately after initial recognition, an ECL is recognized for financial assets measured at amortised cost, which results in an accounting loss being recognized in the statement of profit or loss when an asset is newly originated.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****6 Standards issued but not yet effective (continued)****IFRS 9 Financial Instruments (continued)*****Classification and subsequent measurement of financial assets***

The Company classifies and measures its financial assets that are debt instruments at amortised cost. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as cash and bank balances, working capital finance, statutory deposit and other financial receivables.

Classification and subsequent measurement of debt instruments depend on:

The Company's business model for managing the asset; and

The cash flow characteristics of the asset.

Based on the following factors, the Company classifies its debt instruments at amortised cost:

Amortised cost: *Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized. Interest earned from these financial assets is recognized in the statement of profit or loss using the effective interest rate method.*

Business model: *The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL.*

Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is internally evaluated.

SPPI: *Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payment of principal and interest (the 'SPPI' test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.*

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Financial assets that do not pass SPPI criteria are measured at fair value through profit or loss. The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

However, for contracts that include both the receivable and undrawn commitment and the Company cannot separately identify the ECL on the undrawn commitment component from those on the receivable component, the ECL on the undrawn commitment is recognized together with the loss allowance for the receivable.

The estimation of credit exposure for risk management purposes requires the use of statistical models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

6 Standards issued but not yet effective *(continued)*

IFRS 9 Financial Instruments *(continued)*

Classification and subsequent measurement of financial assets *(continued)*

The Company uses a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarized below:

A financial instrument that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Company.

If significant increase in credit risks (‘SICR’) since initial recognition is identified, the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired.

If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions that will be adopted by the Company in addressing the requirements of the standard are discussed below:

Significant increase in credit risk, including quantitative (e.g. for each group of assets, lifetime PD band at initial recognition and increase in lifetime PD at reporting date which is considered significant) and qualitative criteria (e.g. restructuring).

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Company’s historical experience, expert credit assessment and forward-looking information.

The Company will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The Company renegotiates loans to customers in financial difficulties (referred to as Restructured facilities) to maximize collection opportunities and minimize the risk of default. The loan restructuring facility is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Generally, restructuring a facility is a qualitative indicator of default and credit impairment and expectations of Restructuring are relevant to assessing whether there is a significant increase in credit risk and hence ECL is measured at lifetime loss for such cases. Following restructuring, a customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Definition of default

Under IFRS 9, the Company will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

6 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques.

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- Probability of Default (PD);
- loss given default (LGD); and
- Exposure at default (EAD).

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Company will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortization, and prepayments. The EAD of a financial asset will be the gross carrying amount at default.

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

Forward-looking information incorporated in the ECL models (economic variable assumptions and sensitivity analysis).

Under IFRS 9, the Company will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include length of relationships, Consumer Price Index and Days Past Due performance.

Impairment

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

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

Critical accounting estimates and judgements

The measurement of the expected credit loss allowance for financial assets and finance lease receivables is an area that requires the use of statistical models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

6 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

Establishing groups of similar financial assets for the purposes of measuring ECL.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk-characteristics that include:-

- Customer type
- Credit Risk grading

In the above context, there are three segments considered for the IFRS9 modelling – Retail, SME and Corporate.

IFRS 15 Revenue from contracts with customer

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, on IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

IFRS 15 is effective from annual periods beginning on or after 1 January 2018. The Company has completed review of the potential impact of the adoption of IFRS 15 on its financial statements. This focuses on penal charges and income from pre-closure of leases. The review has indicated that IFRS15 will not have a material impact on the timing of recognition or measurement of income from penal charges and pre-closure of leases, but is likely to require certain additional quantitative and qualitative disclosures on income.

IFRS16 Leases

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

Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The Company will start an initial assessment of the potential impact on its financial statements during 2018.

7 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, SME 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.

8 Other operating income

	2017 Rial '000	2016 Rial '000
Penal charges received	394	290
Income from pre-closed leases	209	229
Miscellaneous income	667	581
	<u>1,270</u>	<u>1,100</u>

9 General and administrative expenses

	2017 Rial '000	2016 Rial '000
Employee related expenses	3,573	3,474
Advertising and sales promotion	30	54
Computer maintenance	88	94
Directors' remuneration and sitting fees	200	200
Professional fees and subscriptions	215	131
Communication costs	147	114
Occupancy costs	110	84
Other office expenses	311	346
	<u>4,674</u>	<u>4,497</u>

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9 General and administrative expenses (continued)

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

	2017	2016
	Rial '000	Rial '000
Salaries and allowances	3,247	2,885
Other benefits	133	247
Social security costs	165	170
End of service benefits (note 19)	17	99
Other incentives	11	73
	3,573	3,474

The total number of employees as at 31 December 2017 is 161 (2016-159).

10 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 15% (2016 – 12%) on the taxable profits.

(a) Status of tax assessments

Tax assessments up to year 2012 are complete and agreed with the taxation authority. Assessments of the Company for tax years 2013 to 2016 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 2017.

(b) Tax liabilities

	2017	2016
	Rial '000	Rial '000
Deferred tax asset	(779)	(770)
Deferred tax liability	113	118
Provision for income tax	1,050	995
Net tax liabilities	384	343

(i) 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:

	2017	2016
	Rial '000	Rial '000
1 January		745
	770	
Addition during the year	196	25
Reduction during the year	(187)	-
31 December	779	770

(ii) 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:

	2017	2016
	Rial '000	Rial '000
1 January	118	122
Additions during the year	-	-
Released during the year	(5)	(4)
31 December	113	118

**NOTES TO THE FINANCIAL STATEMENTS
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10 Taxation (continued)

(iii) 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:

	2017 Rial '000	2016 Rial '000
1 January	995	907
Income tax charge for the year	918	893
Paid during the year	<u>(863)</u>	<u>(805)</u>
31 December	<u>1,050</u>	<u>995</u>

Reconciliation of tax expense

The following is a reconciliation of income taxes calculated on accounting profits at the applicable tax rates with the income tax expense for the year:

	2017 Rial '000	2016 Rial '000
Accounting profit before income tax	7,924	7,213
Income tax expense computed at applicable tax rates	1,189	866
Items not deductible (net) in determining taxable profits	(171)	22
Current tax - prior years	(105)	-
Deferred tax - prior years	(9)	(24)
Tax charge for the year	<u>904</u>	<u>864</u>

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

The calculation of earnings per share is as follows:

	2017	2016
Profit for the year attributable to the ordinary shareholders (Rial '000)	<u>7,020</u>	<u>6,349</u>
Net assets (Rial '000)	<u>48,880</u>	<u>45,655</u>
Weighted average number of shares during the year ('000)	<u>277,225</u>	<u>277,225</u>
Number of shares at the yearend ('000)	<u>279,259</u>	<u>279,259</u>
Basic and diluted earnings per share (Rial)	<u>0.025</u>	<u>0.023</u>
Net assets per share (Rial)	<u>0.175</u>	<u>0.168</u>

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 277,225,686 shares. Net assets per share are calculated by dividing net assets by the number of shares in issue at 31 December 2017 of 279,259,126 shares (2016- 271,125,365 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.

12 Cash and bank balances

	2017 Rial '000	2016 Rial '000
Bank current accounts	1,894	2,344
Cash in hand	<u>3</u>	<u>3</u>
	<u>1,897</u>	<u>2,347</u>

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13 Statutory deposit

The Company is required to maintain capital deposit of Rial 250,000 with the Central Bank of Oman (CBO) in accordance with the applicable licensing requirements. During the year, the deposit earned effective interest at the rate of 1% per annum (2016-1%).

14 Net investment in financing activities

	2017 Rial '000	2016 Rial '000
Gross investment in finance leases	231,828	227,944
Working capital finance	17,023	9,305
Unearned lease income	(35,703)	(32,708)
	213,148	204,541
Impairment of lease receivables	(11,385)	(11,088)
Unrecognised contractual income	(1,224)	(924)
Net investment in finance leases	200,539	192,529

(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 2017, net investment in leases where contractual income has not been recognised was Rial 16.05 million (2016 – Rial 11.24 million). At 31 December 2017, the provision for impairment of lease receivables and unrecognised contractual income were Rial 12.61 million (2016 – Rial 12.01 million).

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

	2017 Rial '000	2016 Rial '000
Net investment in restructured finance leases	1,560	1,872

(c) Lease repayments due more than one year from the reporting date amount to Rial 108 million (2016-Rial 126.0 million).

(d) *Unearned lease income:*

	2017 Rial '000	2016 Rial '000
1 January	32,708	31,320
Additions during the year	20,335	18,599
Recognised during the year	(17,340)	(17,211)
31 December	35,703	32,708

(e) *Impairment of lease receivables:*

	2017 Rial '000	2016 Rial '000
1 January	11,088	10,885
Provided during the year	2,487	2,235
Released during the year	(2,190)	(726)
Written off during the year	-	(1,306)
31 December	11,385	11,088

(f) *Unrecognised contractual income:*

	2017 Rial '000	2016 Rial '000
1 January	924	943
Additions during the year	489	403
Recognised during the year	(189)	(422)
31 December	1,224	924

**NOTES TO THE FINANCIAL STATEMENTS
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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 2017	955	600	1,659	203	3,417
Additions	-	-	170	-	170
Disposals					
31 December 2017	955	600	1,829	203	3,587
Accumulated depreciation					
1 January 2017	-	353	1,309	-	1,662
Charge for the year	-	30	187	68	285
Disposals					
31 December 2017	-	383	1,496	68	1,947
Net book value					
31 December 2017	955	217	333	135	1,640
	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

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 (2016- Rial 0.020 million).

16 Share capital

In the EGM held on 14 December 2017 it was decided to increase the authorised share capital of the Company to 750,000,000 from the existing 300,000,000 ordinary shares of Baizas 100 each – note 1.2. (2016- 300,000,000 ordinary share of Baizas 100 each). The Company's issued and fully paid-up share capital amounts to 279,259,126 ordinary shares of Baizas 100 each (2016- 271,125,365 ordinary shares of Baizas 100 each).

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16 Share capital *(continued)*

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

	2017		2016	
	Number of shares held	%	Number of shares held	%
Al Hilal Investment Co. LLC	<u>109,991,434</u>	<u>39.39</u>	<u>106,787,801</u>	<u>39.4</u>
Oman International Development and Investment Company SAOG	<u>71,389,433</u>	<u>25.56</u>	<u>69,310,130</u>	<u>25.6</u>

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

	2017 Rial '000	2016 Rial '000
Creditors	4,194	2,976
Accruals and other liabilities	<u>1,174</u>	<u>1,372</u>
	<u>5,368</u>	<u>4,348</u>

19 End of service benefits

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

	2017 Rial '000	2016 Rial '000
1 January	620	583
Provision during the year (note 9)	17	99
Payments during the year	<u>(91)</u>	<u>(62)</u>
31 December	<u>546</u>	<u>620</u>

20 Bank borrowings

	2017 Rial '000	2016 Rial '000
Bank overdraft	491	-
Short-term loans	46,951	46,342
Current portion of long term loans	52,204	65,392
Long-term loans	<u>29,115</u>	<u>19,892</u>
	<u>128,761</u>	<u>131,626</u>

(a) During the year, interest was charged on the above borrowings at rates ranging between 3.3% and 5.5% per annum (2016- 2.65% and 5.5% per annum).

(b) At the reporting date, all outstanding borrowings were secured by a first priority pari-passu floating charge on the Company's receivables from its customers.

(c) *Foreign currency forward contracts*

As at 31 December 2017, the notional amount of foreign currency forward contract commitment amounted to RO 11.6 million [USD 30.2 million] (2016 - RO 10.3 M [USD 26.8 M]) to repay US Dollar term loans. The aggregate fair value of the foreign currency forward contracts, which were mainly in US Dollars at 31 December 2017 in the amount of Rials 11.62 million [USD 30.2 Million] have been recognised in the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
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21 Fixed deposits

At 31 December 2017, the Company has accepted fixed deposits from corporate entities based in Oman for a total amount of Rial 21.81 million (2016-Rial 15.86 million), with tenure ranging from 6 months to 5 years, as per guidelines issued by the Central Bank of Oman. These deposits carry interest rates between 3.2% and 5.2% per annum (2016 – 2.7% to 5.2% per annum). The carrying amount includes interest accrued till the end of the year.

22 Proposed dividends

The Board of Directors have decided to propose a dividend for the financial year ended 31 December 2017, after reviewing the post-merger financial position of the merged Company. The merger of OOLC is expected to be completed by the end of first quarter of 2018. The cash dividend paid for 2016 amounted to Rial 3,795,755 and stock dividend issued amounted to Rial 813,376.

23 Cash and cash equivalents

	2017 Rial '000	2016 Rial '000
Bank overdrafts	(491)	-
Cash and bank balances – (note 10)	1,897	2,347
	1,406	2,347

Change in cash flows from financing activities (Principal)

Particulars	Cash flow from Bank Borrowings	Cash flow from Fixed Deposits
Opening Balance	131,284	15,601
Additions during the period	107,897	13,215
Repayments during the period	(111,071)	(7,753)
Closing Balance	128,110	21,063
Change in cash flows	(3,174)	5,462

24 Commitments

	2017 Rial '000	2016 Rial '000
Approved lease commitments	4,461	3,852

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 during 2018.

	2017 Rial '000	2016 Rial '000
Bank guarantees	979	1,113

In accordance with the merger agreement dated 27 December 2017, between the Company and OOLC, the party that defaults on any conditional precedent of the merger agreement, leading to the merger not proceeding, or terminates the merger agreement without cause will be liable to pay a breakup fee of RO 900,000. The Company is also liable to settle any tax liability of OOLC arising on account of the merger, in excess of Rial 600,000.

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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.

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 2017 were as follows:

	2017 Rial '000	2016 Rial '000
General and administrative expenses	3	3
Sales incentive paid	137	127
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	157	175
Remuneration & year end balances to key members of management during the year		
Salaries and other benefits	717	660

27 Subsequent Event

In the Extra Ordinary General Meeting of the Company held on 14 December 2017, the Shareholders have unanimously approved to acquire 100% voting equity interest in OOLC. The merger activity will be completed by end of first quarter of 2018. Due to the early stage of the transaction, an estimate of the financial effect of this proposed acquisition cannot be made reliably (Note 1.2)

28 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 2017	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	1,897	-	-	-	1,897
Statutory deposit	-	-	-	250	250
Net investment in financing activities	6,018	86,867	107,654	-	200,539
Advances and prepayments	-	1,421	-	-	1,421
Deferred tax asset	-	-	-	779	779
Property and equipment	-	-	-	1,640	1,640
Total assets	7,915	88,288	107,654	2,669	206,526
Equity and liabilities					
Total equity				48,880	48,880
Liabilities:					
Bank borrowings and fixed deposits	13,914	98,259	38,396	-	150,569
Creditors and accruals	-	5,368	-	-	5,368
End of service benefits	-	122	-	424	546
Tax liabilities	-	1,050	-	113	1,163
Total equity and liabilities	13,914	104,799	38,396	49,417	206,526
Liquidity gap	(5,999)	(16,511)	69,258	(46,748)	
Cumulative liquidity gap	(5,999)	(22,510)	46,748		

**NOTES TO THE FINANCIAL STATEMENTS
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28 Maturity analysis of assets and liabilities (continued)

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 61.7 million available as on 31 December 2017 (2016 – Rial 49.1 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, on other measures taken, to meet the gap in maturity. Accordingly, management has prepared these financials on a going concern basis.

29 Effective interest rate analysis of financial assets and financial liabilities

At 31 December 2017	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	1,897	-	-	-	1,897
Statutory deposit	250	-	-	-	250
Advances	723	-	-	-	723
Net investment in financing activities	2,628	137,378	60,268	265	200,539
Total	5,498	137,378	60,268	265	203,409
Liabilities					
Bank borrowings and fixed deposits	146,512	4,057	-	-	150,569
Creditors and accruals	5,368	-	-	-	5,368
Total	151,880	4,057	-	-	155,937
At 31 December 2016					
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					

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

At 31 December 2017	0% to less than 5%	5% to less than 10%	10% to less than 15%	15% and above	Total
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

Interest rate sensitivity analysis

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

31 December 2017	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	-	1,897	-	-	-	-	1,897
Statutory deposit	1%	-	-	-	250	-	250
Advances		723	-	-	-	-	723
Net investment in financing activities	6.5%- 17%	6,018	86,867	107,654	-	-	200,539
Total assets		8,638	86,867	107,654	250	-	203,409
Liabilities							
Bank borrowings and fixed deposits	3.3% – 5.25%	13,914	98,259	38,396	-	-	150,569
Creditors and accruals		-	-	-	-	5,368	5,368
Total liabilities		13,914	98,259	38,396	-	5,368	155,937
Interest rate sensitivity gap		(5,276)	(11,392)	69,258	250	(5,368)	47,472
Cumulative interest rate sensitivity gap		(5,276)	(16,668)	52,590	52,840	47,472	
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	6.5%-17%	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	2.65% – 5.5%	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	