

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**1 General**

**1.1 Legal status and principal activities**

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

**1.2 Business combination**

IFRS 3 prescribes the accounting treatment for business combinations. The standard specifies all business combinations should be accounted for by applying the acquisition method. Therefore, the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date and recognises goodwill, which is subsequently tested annually for impairment.

Pursuant to the shareholder approval at the extraordinary general meeting held on 14 December 2017, the assets and liabilities of former Oman ORIX Leasing Company SAOG (OOLC) were purchased by National Finance Company SAOG (NFC).

Further National Finance Company SAOG is the surviving entity upon the completion of the merger and continues its activities as a single legal entity which is a licensed finance company. The merger is effective from 1 January 2018.

The fair value of the 217,512,960 rights shares issued as part of the consideration paid for OOLC represents 99.96% of the total issue of 217,600,000 shares:

Subscribed capital @ 100 bz per share	Rial 21.8M.
Share Premium @ 25 bz per share	Rial 5.4 M.
Issue costs @ 2 bz per share	Rial 0.4 M

**(a) Goodwill and intangible assets on acquisition**

	<b>Rial '000</b>
<b>(a) Consideration transferred</b>	<b>48,810</b>
<i>Cash</i>	48,091
<i>Equity instruments</i>	719
Net assets of OOLC acquired at fair value	
<i>Total assets</i>	204,293
<i>Total liabilities</i>	(162,612)
<i>Merger related expense reserve</i>	(600)
<b>(b) Fair value of net assets acquired</b>	<b>41,081</b>
<b>(c) Excess purchase price =(a) –(b)</b>	<b>7,729</b>
<b>Allocated between:</b>	
<b>(d) Intangible assets identified and valued</b>	
<i>Customer relationships</i>	1,792
<b>(e) Deferred tax liability</b>	(269)
<b>(f) Residual goodwill = (c) –(d) + (e)</b>	<b>6,206</b>

OOLC had appropriated Rial 600,000 towards merger related expenses as per the merger agreement dated 27 December 2017. This amount is not available for distribution.

For the calculation of share swap ratio and purchase consideration payable to shareholders opting for cash option, the net assets value was adjusted for the merger related expense reserve of Rial 600,000. The net assets value as on 31 December 2017 of Rial 0.160 per share, after adjustment of above merger related expense reserve, is considered as Rial 0.158 per share.

The intangible assets will be amortised over a period of seven years. Amortisation of Rial 255,000 has been made in the current financial year in respect of intangible assets.

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**1 General** *(continued)*

**1.2 Business combination** *(continued)*

**(b) Identifiable assets acquired and liabilities assumed**

The following table summarized the recognised amount of assets acquired and liabilities assumed at the date of the acquisition.

	<b>Rial ‘000</b>
Cash and bank balances	2,591
Statutory deposit	250
Net investment in finance activities	199,852
Advances and prepayments	891
Deferred tax	185
Property and equipment	524
Bank Borrowings	(149,235)
Fixed Deposits	(8,250)
Creditors and accruals	(4,420)
Tax liabilities	(707)
<b>Total identifiable net assets acquired</b>	<b><u>41,681</u></b>

*Measurement of fair values*

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

<b>Assets acquired</b>	<b>Valuation technique</b>
Intangible assets	In assessing fair value of this intangible, an income approach is used and the Multi period excess earnings method (“MEEM”) was adopted.
Lease receivable	Lease receivable are calculated on the present value of the minimum lease payments.

**(c) Impairment testing for goodwill**

At the end of reporting period, the Company assessed the recoverable amount of goodwill using key assumptions 1% terminal growth rate, cost of capital of 8.08%, forecast period of five years and determined that goodwill was not impaired. The impairment amongst others, is significantly dependent upon cost of capital and achievement of projected results.

Had the discount rate increased in the range to 11.74% and terminal growth rate reduced to 0.5%, all other assumptions remaining unchanged, an impairment provision of RO. 1,000 would have been required.

**2 Summary of significant accounting policies**

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

*(a) Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board and the requirements of the Commercial Companies Law of 1974, as amended and the relevant disclosure requirements of Capital Market Authority (“CMA”) and applicable regulations of the Central Bank of Oman.

*(b) Basis of preparation*

These financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities measured at fair value.

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

*(c) Use of estimates and judgements*

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

**NOTES TO THE FINANCIAL STATEMENTS  
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**2 Summary of significant accounting policies (continued)**

**2.1 Basis of preparation**

(d) *Standards, amendments and interpretations effective in 2018 and relevant for the Company's operations:*

For the year ended 31 December 2018, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2018.

(e) *Changes in significant accounting policies:*

The Company has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue with Customers' as issued by the IASB in July 2014 with a date of transition of 1 January 2018. 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'.

*IFRS 9 – Financial Instruments*

**Transition**

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 were recognised in the opening retained earnings of the current year.

The Company is in compliance of IFRS 9 requirements in holding impairment provision as of 31 December 2018.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current year. The comparative period notes disclosures repeat those disclosures made in the prior year.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- If a financial asset had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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 applied to the current year (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 2.4 below.

**Classification and measurement of financial instruments**

The measurement category and the carrying amount of financial assets and liabilities in accordance with previous accounting policies under IAS 39 and IFRS 9 as at 1 January 2018 are compared as follows:

	<b>31 December 2017</b>		<b>1 January 2018</b>	
	<b>IAS 39</b>		<b>IFRS 9</b>	
	<b>Measurement category</b>	<b>Carrying amount</b>	<b>Measurement category</b>	<b>Carrying amount</b>
<b>Financial assets</b>		Rial'000		Rial'000
Cash and bank balances	Amortised cost (Loans and receivables)	1,897	Amortised cost	1,897
Net investment in finance leases	Amortised cost (Loans and receivables)	200,539	Amortised cost	200,539
Statutory deposit	Amortised cost (Loans and receivables)	250	Amortised cost	250
<b>Total financial assets</b>		<b>202,686</b>		<b>202,686</b>

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**2 Summary of significant accounting policies (continued)**

**2.1 Basis of preparation (continued)**

(e) *Changes in significant accounting policies: (continued)*

IFRS 9 – Financial Instruments (continued)

Note:

- (a) There were 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.
- (b) There were no changes to the classification and measurement of financial liabilities.

***Reconciliation of statement of financial position balances from IAS 39 to IFRS 9***

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Please refer to note 2.4 for more detailed information regarding new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

	<b>IAS 39 carrying amount 31 December 2017</b>	<b>Reclassifications</b>	<b>Remeasurements (effect of change in impairment)</b>	<b>IFRS 9 carrying amount 1 January 2018</b>
	Rial'000	Rial'000	Rial'000	Rial'000
Amortised cost				
Cash and bank balances	1,897	-	-	1,897
Statutory deposit	250	-	-	250
Finance leases				
Net investment in finance leases	200,539	-	-	200,539

***Reconciliation of impairment allowance balance from IAS 39 to IFRS 9***

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018.

	<b>IAS 39 Impairment / IAS 37 Provision</b>	<b>Reclassifications</b>	<b>Remeasurements</b>	<b>IFRS 9 Impairment</b>
	Rial'000	Rial'000	Rial'000	Rial'000
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash and bank balances	-	-	-	-
Statutory deposit	-	-	-	-
Other financial receivables	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Finance lease receivables				
Investment in finance leases	11,385	-	-	11,385
<b>Total</b>	<b>11,385</b>	<b>-</b>	<b>-</b>	<b>11,385</b>

Further information on the measurement of the impairment allowance under IFRS 9 can be found in note 2.4.

Based on the assessment undertaken to date, the existing provision for impairment as at 31 December 2018 is equal to the total estimated provision requirement on adoption of IFRS 9.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018****2 Summary of significant accounting policies (continued)****2.1 Basis of preparation (continued)**

IFRS 9 – Financial Instruments (continued)

**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 IFRS15 on its financial statements. The company adopted IFRS 15 from 1 January 2018 and there is no significant impact on the adoption of IFRS 15, and only limited to the new disclosure requirements.

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

Certain new accounting standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2019 and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

**IFRS 16 Leases**

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The Company expects no significant impact on its financial statements on adoption of IFRS 16.

**2.2 Interest**

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

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

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.

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.

**2.3 Leased Assets**

Leases 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018****2 Summary of significant accounting policies (continued)****2.4 Financial assets and liabilities****Measurement method**

*Policy applicable from 1 January 2018*

**Initial recognition and measurement**

Financial assets and financial liabilities are recognised 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 recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in the statement of profit or loss when an asset is newly originated.

**2.4.1 Financial assets**

*Policy applicable before 1 January 2018*

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

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

***Classification and subsequent measurement of financial assets***

*Policy applicable from 1 January 2018*

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 recognised. Interest earned from these financial assets is recognised 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.

**NOTES TO THE FINANCIAL STATEMENTS  
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**2 Summary of significant accounting policies (continued)**

**2.4 Financial assets and liabilities (continued)**

**2.4.1 Financial assets (continued)**

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 and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For instance, the Company may hold liquidity portfolio of assets as part of liquidity management. This portfolio generally will be classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVPL.

*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 year.

*Policy applicable before 1 January 2018*

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

***Impairment***

*Policy applicable from 1 January 2018*

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

- Lease receivables; and
- Balance in current account with banks which was found immaterial.
- No impairment loss is recognised on equity investments.

The Company assesses on a forward-looking basis the ECL associated with its financial assets carried at amortised cost. The Company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Details of measuring the expected credit loss allowance is provided in note 3.1.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018****2 Summary of significant accounting policies** *(continued)***2.4 Financial assets and liabilities** *(continued)***2.4.1 Financial assets** *(continued)**Policy applicable before 1 January 2018*

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

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group; or national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

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

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

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows associated with the assets and the Company's historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data, including peer statistics, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect, and be directionally consistent with, changes in related observable data from period to period (for example, payment status or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company and, if required, revised in order to reflect in loss estimates any changes in actual loss experience.

When a financial asset is uncollectible, it is written off against the related provision for impairment. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the statement of profit or loss in the year of receipt.



**NOTES TO THE FINANCIAL STATEMENTS  
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The Company sometimes renegotiates or otherwise modifies the contractual cash flows of financial assets receivable from customers. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

- If the borrower/lessee is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower/lessee is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share / equity-based return that substantially affects the risk profile of the product.
- Significant extension of the term when the borrower/lessee is not in financial difficulty.
- Significant change in the interest rate.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the product.

If the terms are substantially different, the Company derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculated a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.

If terms are not substantially different, the renegotiation or modification does not result in derecognition and the Company recalculated the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in the statement of profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

*Derecognition other than on modification*

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

*Classification and measurement*

Financial liabilities are initially recognised at fair value, including transaction costs, and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading, and other financial liabilities designated as such at initial recognition.
- Financial guarantee contracts and lease commitments.

*Derecognition*

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expired).

*Modification of Financial Liabilities*

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument. There is no modification of financial liabilities for the year.

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**2 Summary of significant accounting policies (continued)**

**2.5 Working capital finance and finance lease commitments**

Undrawn working capital finance and lease commitments provided by the Company are measured as the amount of the ECL allowance (calculated as described in note 3.2). For working capital finance and lease commitments the allowance is recognised as a provision.

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 are recognised together with the loss allowance for the receivable.

**2.6 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.

**2.7 Cash and cash equivalents**

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

**2.8 Borrowings**

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

**2.9 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.

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

**2.11 End of service benefits and leave entitlements**

Provision for end of service indemnity for non-Omani employees has been made in accordance with the terms of the Oman Labour Law 2003 and its amendments and is based on current remuneration rates and cumulative years of service at the statement of financial position date. Employee's entitlements to annual leave and leave passage are recognised when they accrue to the employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

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

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

**2.12 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.

**2.13 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 2018****2 Summary of significant accounting policies** *(continued)***2.14 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 Ordinary General Meeting subject to the approval of the Central Bank of Oman.

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

**2.15 Directors' remuneration**

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

The Annual General Meeting determines and approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees, in accordance with article 106 of the CCL shall not exceed 5% of the annual net profit after transfers to the legal reserve and notionally calculating or distributing the dividends to shareholders at not less than 5% of capital. Such fees shall not exceed Rial 200,000 in one year. The sitting fee for each Director does not exceed Rial 10,000 in one year.

**2.16 Offsetting**

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

**2.17 Segment reporting**

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

**2.18 Business combinations**

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

**2.19 Intangible assets and Goodwill****2.19.1 Goodwill**

Goodwill arising on the acquisition is measured at cost less accumulated impairment losses.

**2.19.2 Intangible assets**

Intangible assets (customer relationships) acquired by the Company and have finite useful lives is measured at cost less accumulated amortisation and any accumulated impairment losses.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018****2 Summary of significant accounting policies** *(continued)***2.19.3 Amortisation**

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for customer relationship are 7 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**3 Financial risk management**

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

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

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

**3.1 Credit risk**

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**3 Financial risk management (continued)**

**3.1 Credit risk (continued)**

**3.1.1 Credit risk measurement**

*Policy applicable from 1 January 2018*

The estimation of counterparty credit exposure for risk management purposes is a complex mechanism and requires the use of credit risk models in place to determine various factors like changes in portfolio exposures, customer behaviors, market conditions, expected cash flows, probability of a customer to default etc. NFC measures its credit risk using three drivers which are probability of default (PD) that derives likelihood of each customer to default based on its characteristics and credit behavior, loss given default (LGD) that determines maximum amount a company will lose in case a client defaults and exposure at default (EAD) that is computed based on future contractual payments expected to receive from counterparty.

NFC is using an internally developed credit risk rating mechanism to segregate/pool its customer based on their propensity to default. To determine credit risk related to each customer, NFC assess various internal and external characteristics at the time of application, which may include but is not limited to disposable income, level of collateral, external credit bureau information, type of industry operations, revenue turnover etc. In addition to it, all these input factors are assessed by Credit Risk Officer and their expert judgements are also considered as an input to credit risk rating mechanism for each client and exposure.

Further, to assess counterparty credit risk in depth, NFC uses following factors specific to each portfolio in depth:

**Retail Portfolio:**

Once an asset is recognized for retail business, NFC monitors and assesses payment behavior of each borrower periodically to determine creditworthiness of client using factors like Days Past Due (DPD) as of current date, maximum DPD as of previous 3/6 months from reporting date, length of relationship with NFC etc.

**Small Medium Enterprise (SME) Portfolio:**

Once an asset is recognized for SME business, NFC monitors and assesses payment behavior, revenues and financial statements of each borrower periodically along with qualitative factors to determine creditworthiness of client using factors like Days Past Due (DPD) as of current date, maximum DPD as of previous 12 months from reporting date, length of relationship with NFC etc.

**Corporate Portfolio:**

Once an asset is recognized for corporate business, NFC monitors and assess payment behavior, revenues and financial statements of each borrower periodically along with qualitative factors to determine creditworthiness of client using factors like type of industry, nature of business, Days Past Due (DPD) as of current date, maximum DPD as of previous 12 months from reporting date, length of relationship with NFC etc.

The Company uses a 'three-stage' model to determine significant increase in credit risk for each counterparty since origination and uses a sum of marginal losses approach to determine expected credit loss (ECL)/impairment for each exposure. Significant factors determining the ECL calculations are summarized in 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 NFC.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- 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).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**3 Financial risk management (continued)**

**3.1 Credit risk (continued)**

**3.1.1 Credit risk measurement (continued)**

**Cash and cash equivalents**

The company held cash at bank of Rial 4.96 million at 31 December 2018 (31 December 2017 –Rial 1.89 million). The cash at bank are held with banks, which are rated at least P3 based on Moodys ratings.

The key judgements and assumptions 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).
- Definition of default and credit-impaired assets.
- Measuring ECL – Explanation of inputs, assumptions and estimation techniques.
- Forward-looking information incorporated in the ECL models (including economic variable assumptions and sensitivity analysis).
- Grouping of instruments for losses measured on a collective basis.

**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.

**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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**3 Financial risk management** *(continued)*

**3.1 Credit risk** *(continued)*

**3.1.1 Credit risk measurement** *(continued)*

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 incorporated 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 year 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 2018**

**3 Financial risk management (continued)**

**3.1 Credit risk (continued)**

**3.1.1 Credit risk measurement (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.

*Policy applicable before 1 January 2018*

The Company's credit policy aims to ensure that the portfolio credit loss will be less than the target percentage as determined and agreed by the Board of Directors. The Board of Directors reviews this loss norm annually along with the management.

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

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

**3.1.2 Credit risk control and mitigation policies**

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

**3 Financial risk management** *(continued)*

**3.1 Credit risk** *(continued)*

**3.1.3 Impairment**

The below table shows comparison of provision held as per IFRS 9 and required as per CBO norms:

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount Rial' 000	Provision required as per CBO norms Rial' 000	Provision held as per IFRS 9 Rial' 000	Difference Rial' 000	Net carrying amount Rial' 000	Interest recognised as per IFRS 9 Rial' 000	Reserve interest as per CBO Norms Rial' 000
Standard	Stage 1	353,196	95	2,037	(1,942)	351,159	33,232	-
	Stage 2	36,460	277	6,150	(5,873)	30,310	3,762	-
	Stage 3	3,260	466	660	(194)	2,600	241	-
Subtotal		392,916	838	8,847	(8,009)	384,069	37,235	
Special Mention	Stage 1	391	35	7	28	383	48	1
	Stage 2	2,506	188	365	(177)	2,111	227	30
	Stage 3	14,598	1,001	3,448	(2,447)	10,614	984	536
Subtotal		17,495	1,224	3,820	(2,596)	13,108	1,259	567
Substandard	Stage 1	50	12	1	11	49	5	-
	Stage 2	535	132	145	(13)	384	57	6
	Stage 3	10,767	2,633	2,191	442	8,039	572	537
Subtotal		11,352	2,777	2,337	440	8,472	634	543
Doubtful	Stage 1	20	9	1	8	19	3	-
	Stage 2	202	63	20	43	181	22	1
	Stage 3	5,693	1,859	1,514	345	3,811	199	368
Subtotal		5,915	1,931	1,535	396	4,011	224	369
Loss	Stage 1	33	22	1	21	32	5	-
	Stage 2	119	98	14	84	105	21	-
	Stage 3	20,901	15,536	8,513	7,023	9,843	152	2,545
Subtotal		21,053	15,656	8,528	7,128	9,980	178	2,545
Total	Stage 1	353,690	173	2,047	(1,874)	351,642	33,293	1
	Stage 2	39,822	758	6,694	(5,936)	33,091	4,089	37
	Stage 3	55,219	21,495	16,326	5,169	34,907	2,148	3,986
	<b>Total</b>	<b>448,731</b>	<b>22,426</b>	<b>25,067</b>	<b>(2,641)</b>	<b>419,640</b>	<b>39,530</b>	<b>4,024</b>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018

**3 Financial risk management** (continued)

**3.1 Credit risk** (continued)

**3.1.3 Impairment** (continued)

The below table shows comparison of provision held as per IFRS 9 and required as per CBO norms for restructured accounts:

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount Rial' 000	Provision required as per CBO norms Rial' 000	Provision held as per IFRS 9 Rial' 000	Difference Rial' 000	Net carrying amount Rial' 000	Interest recognised as per IFRS 9 Rial' 000	Reserve interest as per CBO Norms Rial' 000
Classified as performing	Stage 1	2	-	-	-	2	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		2	-	-	-	2	-	-
Classified as non-performing	Stage 1	227	38	3	35	224	30	-
	Stage 2	1,161	291	222	69	937	112	2
	Stage 3	4,257	1,892	1,010	882	2,833	90	414
Subtotal		5,645	2,221	1,235	986	3,994	232	416
	Stage 1	229	38	3	35	226	30	-
	Stage 2	1,161	291	222	69	937	112	2
	Stage 3	4,257	1,892	1,010	882	2,833	90	414
Total	Total	5,647	2,221	1,235	986	3,996	232	416

The below table shows comparison of impairment allowance and loss held as per IFRS 9 and required as per CBO norms:

	<u>As per CBO norms</u>		<u>As per IFRS 9</u>		<u>Difference</u>	
	Current year Rial' 000	Previous year Rial' 000	Current year Rial' 000	Previous year Rial' 000	Current year Rial' 000	Previous year Rial' 000
Impairment loss charged to profit and loss	1,835	-	1,835	-	-	-
Provisions required as per CBO norms / held as per IFRS 9	26,450	-	29,091	-	(2,641)	-
Gross NPL ratio	12.4	-	12.3	-	0.1	-
Net NPL ratio	7.0	-	8.1	-	(1.1)	-

Provisions required as per CBO norms / held as per IFRS 9 does not includes special reserve for restructured leases of Rial 21,000 required to be maintained as per CBO norms.

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

The table below shows the maximum exposure to credit risk – financial instruments subject to impairment:

	<b>As at 31 December 2018</b>				<b>As at 31 December 2017</b>
	<b>Stage 1 12-month ECL Rial'000</b>	<b>Stage 2 Lifetime ECL Rial'000</b>	<b>Stage 3 Lifetime ECL Rial'000</b>	<b>Total Rial'000</b>	<b>Total Rial'000</b>
Bank balances	3,104	1,857	-	4,961	1,894
Investment in finance leases	353,690	39,822	55,219	448,731	213,148
Statutory deposit	250	-	-	250	250
Carrying amount before loss allowance	357,044	41,679	55,219	453,942	215,292
Loss allowance	2,047	6,694	20,350	29,091	12,609
Carrying amount after loss allowance	354,997	34,985	34,869	424,851	202,683

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**3 Financial risk management (continued)**

**3.1 Credit risk (continued)**

**3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)**

The table below shows the maximum exposure to credit risk – financial instruments unfunded:

	<b>31 December 2018</b>	<b>31 December 2017</b>
	Rial'000	Rial'000
Undrawn finance lease commitments	<b>7,423</b>	4,461
Carrying amount	<b>7,423</b>	4,461

The above tables represent a worst case scenario of credit risk exposure of the Company at 31 December 2018 and 31 December 2017 without taking into account any collateral held.

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

**3.1.5 Finance lease receivables**

The table (note 3.1.4) provides overview of the exposure amount and allowance for credit losses by financial asset class broken down into stages as per IFRS 9 requirements.

**Collateral held**

The company holds collateral against certain of its credit exposures. The fair value of those collateral as at 31 December 2018 is RO 333.7 million (2017 – RO. 127.3 million)

The tables below provide overview of the exposure amount and allowance for credit losses by financial assets class broken down as per IAS 39 requirements.

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

	<b>2017 Rial '000</b>
Neither past due nor impaired	159,641
Past due but not impaired	37,460
Impaired	16,047
<b>Total</b>	<b>213,148</b>

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

75% of the portfolio as at 31 December 2017 represents this category.

	<b>2017 Rial '000</b>
Fair value of collaterals	98,368

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

	<b>2017 Rial '000</b>
Past due up to 30 days	21,558
Past due 30 to 60 days	10,768
Past due 60 to 90 days	5,134
<b>Total</b>	<b>37,460</b>
Fair value of collaterals	22,437

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**3 Financial risk management (continued)**

**3.1 Credit risk (continued)**

**3.1.5 Finance lease receivables (continued)**

*(c) Finance lease receivables individually impaired*

	2017 Rial '000
Past due individually impaired	16,047
Fair value of collaterals	6,506

The Company evaluates its collateral value by applying a fixed annual reduction in the value of equipment and vehicles held as collateral. Value of property held as collateral is obtained from external valuations held. The lower of exposure, amortised cost of the asset and forced sale value is considered.

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

**3.1.6 Concentration of risks**

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

	2018 Rial '000	2017 Rial '000
Individuals	170,358	117,419
SME & Corporate	249,282	83,120
	<b>419,640</b>	<b>200,539</b>

*(b) Geographical concentration*

All the Company's financial assets and liabilities are concentrated within the Sultanate of Oman, except for loans from foreign banks from GCC states, to the extent of Rial 25.4 million (2017 - Rial 11.6 million) denominated in US Dollars.

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

	2018 Rial '000	2017 Rial '000
Trading, contracting and services	224,043	64,386
Individuals	170,358	117,419
Manufacturing	25,239	18,734
	<b>419,640</b>	<b>200,539</b>

**3.2 Market risk**

**3.2.1 Interest rate risk**

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

As the Company has significant interest-bearing financial assets and liabilities, the Company's income and operating cash flows are substantially dependent on market interest rates. The 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**3 Financial risk management (continued)**

**3.2 Market risk (continued)**

**3.2.1 Interest rate risk (continued)**

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios the Company calculates the impact on its profit or loss of a 1% interest rate increase. The simulation is presented to the Asset and Liability Committee (ALCO) on a monthly basis. Based on the simulation performed at the year end, the impact on the Company's profit after tax of a 1% increase in interest rates would be a maximum reduction of Rial 1.643 million (December 2017- Rial 1.058 million).

**3.2.2 Foreign currency risk**

Foreign currency risk is the risk arising from future commercial transactions or recognised financial assets or liabilities being denominated in a currency that is not the Company's functional currency. The majority of the Company's transactions are denominated in the functional currency. The Company's foreign currency transactions are restricted to certain long-term borrowings amounting to Rial 25.4 million, (December 2017- Rial 11.6 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 2018 is Rial 25.4 million.

**3.2.3 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.

**3.3 Funding approach**

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

**3.3.1 Cash flows**

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

<b>At 31 December 2018</b>	<b>Up to 1 month Rial '000</b>	<b>&gt; 1 month to 1 year Rial '000</b>	<b>&gt; 1 year to 5 years Rial '000</b>	<b>Non-fixed maturity Rial '000</b>	<b>Total Rial '000</b>
Bank borrowings and deposits	60,357	192,542	68,787	-	321,686
Creditors and accruals	2,792	11,062	-	-	13,854
Financial liabilities	<b>63,149</b>	<b>203,604</b>	<b>68,787</b>	<b>-</b>	<b>335,540</b>

<b>At 31 December 2017</b>	<b>Up to 1 month Rial '000</b>	<b>&gt; 1 month to 1 year Rial '000</b>	<b>&gt; 1 year to 5 years Rial '000</b>	<b>Non-fixed maturity Rial '000</b>	<b>Total Rial '000</b>
Bank borrowings and deposits	13,914	98,259	38,396	-	150,569
Creditors and accruals	-	5,368	-	-	5,368
Financial liabilities	<b>13,914</b>	<b>103,627</b>	<b>38,396</b>	<b>-</b>	<b>155,937</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**3 Financial risk management** *(continued)*

**3.3 Funding approach** *(continued)*

**3.3.2 Off balance sheet items**

	<b>2018</b> <b>Rial '000</b>	2017 Rial '000
Approved lease commitments (note 23)	<b>7,423</b>	4,461
Bank guarantees (note 24)	<b>788</b>	979
Total exposure	<b>8,211</b>	5,440

The Company expects the majority of the approved lease commitments to be exercised by the customers and disbursed by the Company within 3 months (2017- 3 months) of the reporting date.

**3.4 Fair values**

The carrying amounts, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year approximate their fair values. The fair values of long-term bank borrowings approximate 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 13 to these financial statements.

**3.5 Capital management**

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

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

The Company also has the objective with respect to meeting the capital requirements of the Central Bank of Oman, the Regulatory Authority. The Company was required to increase its issued share capital to Rial 25 million before 31 December 2016. As of the statement of financial position date, the Company's paid up capital is in line with Central Bank of Oman guidelines.

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

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

**4 Critical accounting estimates and judgements**

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**4 Critical accounting estimates and judgements (continued)**

***Impairment losses on lease receivables***

*Applicable from 1 January 2018*

The measurement of the expected credit loss allowance for financial assets and finance lease receivables is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3.1, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

Detailed information about the judgements and estimates made by the Company in the above areas is set out in note 3.1.1.

*Applicable before 1 January 2018*

The Company reviews its lease receivable portfolio to assess impairment on a monthly basis; the Company follows guidelines issued by the Central Bank of Oman and the requirements of applicable IFRSs. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of lease receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics, peer statistics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**5 Operating segments**

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

**6 Other operating income**

	<b>2018</b> <b>Rials '000</b>	2017 Rials '000
Penal charges received	<b>369</b>	394
Income from pre-closed leases	<b>520</b>	209
Miscellaneous income	<b>1,928</b>	667
	<b><u>2,817</u></b>	<u>1,270</u>



**NOTES TO THE FINANCIAL STATEMENTS  
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**7 General and administrative expenses**

	<b>2018</b>	<b>2017</b>
	<b>Rials '000</b>	<b>Rials '000</b>
Employee related expenses	<b>8,961</b>	3,573
Occupancy costs	<b>295</b>	110
Communication costs	<b>426</b>	147
Professional fees and subscriptions	<b>182</b>	215
Advertising and sales promotion	<b>128</b>	30
Directors' remuneration and sitting fees	<b>200</b>	200
Other office expenses	<b>651</b>	399
	<b>10,843</b>	4,674

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

	<b>2018</b>	<b>2017</b>
	<b>Rials '000</b>	<b>Rials '000</b>
Salaries and allowances	<b>7,832</b>	3,247
Other benefits	<b>364</b>	133
Social security costs	<b>347</b>	165
End of service benefits (note 18)	<b>392</b>	17
Other incentives	<b>26</b>	11
	<b>8,961</b>	3,573

The total number of employees as at 31 December 2018 is 316 (December 2017-161)

**8 Taxation**

**Components of taxation for the year**

The Company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the tax rate of 15% (2017 – 15%) 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 2017 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 2018.

*(b) Tax liabilities*

	<b>2018</b>	<b>2017</b>
	<b>Rial '000</b>	<b>Rial '000</b>
Deferred tax asset	<b>(410)</b>	(779)
Deferred tax liability	<b>339</b>	113
Provision for income tax	<b>1,471</b>	1,050
<b>Net tax liabilities</b>	<b>1,400</b>	384

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**8 Taxation (continued)**

*(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:

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
1 January	779	770
Transfer from former OOLC	185	-
Addition during the year	40	196
Reduction during the year	(594)	(187)
31 December	<b>410</b>	<b>779</b>

*(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:

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
1 January	113	118
Additions during the year	269	-
Released during the year	(43)	(5)
31 December	<b>339</b>	<b>113</b>

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

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
1 January	1,050	995
Transfer from former OOLC	707	-
Income tax charge for the year	1,558	918
Paid during the year	(1,844)	(863)
31 December	<b>1,471</b>	<b>1,050</b>

*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:

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
Accounting profit before income tax	14,083	7,924
Income tax expense computed at applicable tax rates	2,113	866
Items not deductible (net) in determining taxable profits	(599)	(171)
Current tax - prior years	-	(105)
Deferred tax - prior years	554	(9)
Tax charge for the year	<b>2,068</b>	<b>904</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

The calculation of earnings per share is as follows:

	2018	2017
Profit for the year attributable to equity shareholders (Rial '000)	12,015	7,020
Interest on Perpetual Bonds	(1,101)	-
Net profit attributable to ordinary shareholders	10,914	7,020
Net assets attributable to ordinary shareholders (Rial '000)	85,625	48,880
Weighted average number of shares during the year ('000) - restated	457,704	324,874
Number of shares at the yearend ('000)	517,924	279,259
Basic and diluted earnings per share (Rial) - restated	0.024	0.022
Net assets per share (Rial)	0.165	0.175

Earnings per share as at 31 December 2018 have been calculated using weighted average shares outstanding for the year. The weighted average shares outstanding for the year ended 31 December 2018 has been calculated by adopting the theoretical ex-rights price which are 457,703,558 shares (31 December: 2017: 324,874,254 shares). Net assets per share have been calculated using weighted average outstanding shares as at 31 December 2018.

**10 Cash and bank balances**

	2018 Rial '000	2017 Rial '000
Bank current accounts	4,961	1,894
Cash in hand	12	3
	4,973	1,897

**11 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 1.5% per annum (2017-1%).

**12 Net investment in financing activities**

	2018 Rial '000	2017 Rial '000
Gross investment in finance leases	525,353	231,828
Working capital finance	20,324	17,023
Unearned lease income	(96,946)	(35,703)
	448,731	213,148
Provision for impairment of lease receivable	(25,067)	(11,385)
Unrecognised contractual income	(4,024)	(1,224)
<b>Net investment in financing activities</b>	<b>419,640</b>	<b>200,539</b>

**NOTES TO THE FINANCIAL STATEMENTS  
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**12 Net investment in financing activities (continued)**

(a) *Unearned lease income:*

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
1 January	35,703	32,708
Transfer from former OOLC	46,397	-
Additions during the year	54,376	20,335
Recognised during the year	(39,530)	(17,340)
31 December	<b>96,946</b>	<b>35,703</b>

(b) *Provision for impairment of lease receivable:*

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
1 January	11,385	11,088
Transfer from former OOLC	11,847	-
Provided during the year	12,250	2,487
Released during the year	(10,415)	(2,190)
Written off during the year	-	-
31 December	<b>25,067</b>	<b>11,385</b>

(c) *Unrecognised contractual income:*

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
1 January	1,224	924
Transfer from former OOLC	674	-
Additions during the year	3,453	489
Recognised during the year	(1,327)	(189)
31 December	<b>4,024</b>	<b>1,224</b>

(d) The current and non-current amounts are disclosed in note 26 to these financial statements.

**13 Property and equipment**

	<b>Freehold land Rials '000</b>	<b>Buildings Rials '000</b>	<b>Furniture, fixtures and equipment Rials '000</b>	<b>Motor vehicles Rials '000</b>	<b>Total Rials '000</b>	<b>Capital WIP Rials '000</b>	<b>Total Rials '000</b>
<b>At 31 December 2018</b>							
<b>Cost or valuation</b>							
At 1 January 2018	955	600	1,829	203	3,587	-	3,587
Transfer from former OOLC	-	-	1,157	170	1,327	-	1,327
Additions	-	-	603	198	801	3,411	4,212
Disposals	-	-	(1)	(301)	(302)	-	(302)
<b>At 31 December 2018</b>	<b>955</b>	<b>600</b>	<b>3,588</b>	<b>270</b>	<b>5,413</b>	<b>3,411</b>	<b>8,824</b>
<b>Accumulated depreciation</b>							
At 1 January 2018	-	383	1,496	68	1,947	-	1,947
On assets transferred from former OOLC	-	-	703	100	803	-	803
Charge for the year	-	33	368	113	514	-	514
Disposals	-	-	(1)	(230)	(231)	-	(231)
<b>At 31 December 2018</b>	<b>-</b>	<b>416</b>	<b>2,566</b>	<b>51</b>	<b>3,033</b>	<b>-</b>	<b>3,033</b>
<b>Net book value</b>							
<b>At 31 December 2018</b>	<b>955</b>	<b>184</b>	<b>1,022</b>	<b>219</b>	<b>2,380</b>	<b>3,411</b>	<b>5,791</b>

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	Freehold land Rials '000	Buildings Rials '000	Furniture, fixtures and equipment Rials '000	Motor vehicles Rials '000	Total Rials '000	Capital WIP Rials '000	Total Rials '000
At 31 December 2017							
Cost or valuation							
At 1 January 2017	955	600	1,659	203	3,417	-	3,417
Additions	-	-	170	-	170	-	170
Disposals	-	-	-	-	-	-	-
At 31 December 2017	955	600	1,829	203	3,587	-	3,587
Accumulated depreciation							
At 1 January 2017	-	353	1,309	-	1,662	-	1,662
Charge for the year	-	30	187	68	285	-	285
Disposals	-	-	-	-	-	-	-
At 31 December 2017	-	383	1,496	68	1,947	-	1,947
Net book value							
At 31 December 2017	955	217	333	135	1,640	-	1,640

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. (December 2017- Rial 0.020 million).

The Company has purchased office space for RO 3.4 million in Muscat and taken the possession of the office space. Initial layout and design work for the office space are under progress.

#### 14 Share capital

The authorised share capital of the Company comprises 750,000,000 ordinary shares of Baizas 100 each (2017- 750,000,000 ordinary share of Baizas 100 each). The Company's issued and fully paid-up share capital amounts to 503,964,075 ordinary shares and bonus shares under allotment of 13,959,805 shares of Baizas 100 each (2017- 279,259,126 ordinary shares of Baizas 100 each).

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

	2018		2017	
	Number of shares held	%	Number of shares held	%
Oman International Development and Investment Company SAOG	174,389,031	34.60	71,389,433	25.56
Al Hilal Investment Co. LLC	148,324,643	29.43	109,991,434	39.39

#### 15 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.

#### 16 Perpetual Bond

The Company issued 8% Perpetual Bond for Rials 18.2 million through private placement during the year for payment of purchase consideration to OOLC shareholders which are mentioned at net of bond issue expenses of Rial 0.131 million.

**NOTES TO THE FINANCIAL STATEMENTS  
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**17 Creditors and accruals**

	<b>2018</b> <b>Rial '000</b>	<b>2017</b> <b>Rial '000</b>
Creditors	<b>4,325</b>	4,194
Accruals and other liabilities	<b>6,737</b>	1,174
Dividend payable	<b>2,792</b>	-
	<b>13,854</b>	<b>5,368</b>

**18 End of service benefits**

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

	<b>2018</b> <b>Rial '000</b>	<b>2017</b> <b>Rial '000</b>
1 January	<b>546</b>	620
Transfer from former OOLC	<b>507</b>	-
Provision during the year (note 7)	<b>392</b>	17
Payments during the year	<b>(495)</b>	(91)
31 December	<b>950</b>	<b>546</b>

**19 Bank borrowings**

	<b>2018</b> <b>Rial '000</b>	<b>2017</b> <b>Rial '000</b>
Bank overdraft	<b>1,253</b>	491
Short-term loans	<b>105,898</b>	46,951
Current portion of long term loans	<b>124,730</b>	52,204
Long-term loans	<b>65,909</b>	29,115
	<b>297,790</b>	<b>128,761</b>

(a) During the year, interest was charged on the above borrowings at rates ranging between 3.25% and 5.50% per annum (December 2017-3.3% 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 assets of the Company, including but not limited to the Company's receivables from its customers.

(c) *Foreign currency forward contracts*

As at 31 December 2018, the notional amount of foreign currency forward contract commitment amounted to Rial 25.4 million [USD 65.9 million] (December 2017 - Rial 11.6 M [USD 30.2 M]) to repay US Dollar term loans. The aggregate fair value of foreign currency forward contracts at 31 December 2018 is Rials 25.4 million [USD 65.9 million].

**20 Fixed deposits**

At 31 December 2018, the Company has accepted fixed deposits from corporate entities based in Oman for a total amount of Rial 23.9 million, (December 2017-Rial 21.8 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 3.75% and 5.10% per annum (December 2017 – 3.20% to 5.20% per annum). The carrying amount includes interest accrued till the end of the year.

**21 Proposed and approved dividends**

**Proposed**

The Board of Directors at the forthcoming Annual General Meeting propose a cash dividend of 8% and stock dividend of 4.5% on the shares outstanding on the record date. The cash dividend is expected to amount to Rial 4,143,391 and stock dividend is expected to amount to Rial 2,330,657. These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year of approval.

**Approved**

The cash dividend approved for 2017 amounted to Rial 2,791,815 and stock dividend approved amounted to Rial 1,395,980. The stock dividend was approved by MCD on 03 January 2019.

**NOTES TO THE FINANCIAL STATEMENTS  
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**22 Cash and cash equivalents**

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
Bank overdrafts	(1,253)	(491)
Cash and bank balances – (note 10)	<u>4,973</u>	<u>1,897</u>
	<b>3,720</b>	<b>1,406</b>

**Change in cash flows from financing activities (Principal)**

	<b>2018</b>		<b>2017</b>	
<b>Particulars</b>	<b>Cash flow from Bank Borrowings Rial '000</b>	<b>Cash flow from Fixed Deposits Rial '000</b>	<b>Cash flow from Bank Borrowings Rial '000</b>	<b>Cash flow from Fixed Deposits Rial '000</b>
1 January	128,110	21,064	131,284	15,601
Balance transferred from OOLC	149,235	8,250	-	-
Additions during the year	252,647	6,110	107,897	13,215
Repayments during the year	<u>(234,720)</u>	<u>(12,475)</u>	<u>(111,071)</u>	<u>(7,753)</u>
31 December	<b>295,272</b>	<b>22,949</b>	<b>128,110</b>	<b>21,063</b>
<b>Change in cash flows</b>	<b>17,927</b>	<b>(6,365)</b>	<b>(3,174)</b>	<b>5,462</b>

**23 Commitments**

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
Approved lease commitments	<u>7,423</u>	<u>4,461</u>

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

**24 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 2019.

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
Bank guarantees	<u>788</u>	<u>979</u>

**25 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 were as follows:

	<b>2018 Rial '000</b>	<b>2017 Rial '000</b>
General and administrative expenses	2	3
Sales incentive paid	66	137
Purchase of fixed assets	3,609	-
Sale of fixed assets	<u>38</u>	<u>-</u>
<b>Directors' fees and remuneration</b>		
Directors' sitting fees and proposed remuneration	200	200
<b>Remuneration &amp; year end balances to key members of management during the year</b>		
Salaries and other benefits	<u>844</u>	<u>717</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**26 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.

<b>At 31 December 2018</b>	<b>Up to 1 month Rial '000</b>	<b>&gt; 1 month to 1 year Rial '000</b>	<b>&gt; 1 year Rial '000</b>	<b>Non-fixed maturity Rial '000</b>	<b>Total Rial '000</b>
<b>Assets</b>					
Cash and bank balances	4,973	-	-	-	4,973
Statutory deposit	-	-	-	250	250
Net investment in financing activities	11,355	111,209	297,076	-	419,640
Advances and prepayments	-	3,187	-	-	3,187
Deferred tax asset	-	-	-	410	410
Goodwill	-	-	-	6,206	6,206
Intangible asset	-	-	-	1,537	1,537
Property and equipment	-	-	-	5,791	5,791
<b>Total assets</b>	<b>16,328</b>	<b>114,396</b>	<b>297,076</b>	<b>14,194</b>	<b>441,994</b>
<b>Equity and liabilities</b>					
<b>Total equity</b>	-	-	-	103,694	103,694
<b>Liabilities:</b>					
Bank borrowings and fixed deposits	60,357	192,542	68,787	-	321,686
Creditors and accruals	2,792	11,062	-	-	13,854
End of service benefits	-	-	-	950	950
Tax liabilities	-	1,810	-	-	1,810
<b>Total equity and liabilities</b>	<b>63,149</b>	<b>205,414</b>	<b>68,787</b>	<b>104,644</b>	<b>441,994</b>
<b>Liquidity gap</b>	<b>(46,821)</b>	<b>(91,018)</b>	<b>228,289</b>	<b>(90,450)</b>	
<b>Cumulative liquidity gap</b>	<b>(46,821)</b>	<b>(137,839)</b>	<b>90,450</b>	<b>-</b>	

At 31 December 2017	Rials '000	Rials '000	Rials '000	Rials '000	Rials '000
<b>Assets</b>					
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
<b>Total assets</b>	<b>7,915</b>	<b>88,288</b>	<b>107,654</b>	<b>2,669</b>	<b>206,526</b>
<b>Equity and Liabilities</b>					
<b>Equity</b>	-	-	-	48,880	48,880
<b>Liabilities</b>					
Bank borrowings and fixed deposit	13,914	98,259	38,396	-	150,569
Creditors and accruals	-	5,368	-	-	5,368
Staff terminal benefits	-	122	-	424	546
Tax liabilities	-	1,050	-	113	1,163
<b>Total equity and liabilities</b>	<b>13,914</b>	<b>104,799</b>	<b>38,396</b>	<b>49,417</b>	<b>206,526</b>
<b>Liquidity gap</b>	<b>(5,999)</b>	<b>(16,511)</b>	<b>69,258</b>	<b>(46,748)</b>	
<b>Cumulative liquidity gap</b>	<b>(5,999)</b>	<b>(22,510)</b>	<b>46,748</b>	<b>-</b>	



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

The Company had unutilized long-term credit facilities amounting to Rial 113.1 million available as on 31 December 2018 (December 2017 – Rial 61.7 million) to mitigate the impact of negative mismatch. The Company expects, given experience, local practice and discussions with lenders that short-term borrowing facilities will be extended renewed or replaced on expiry and fixed deposits maturing within one year will be renewed if required as well as other measures to meet the gap in maturity. Accordingly, management has prepared these financials on going concern basis.

**27 Effective interest rate analysis of financial assets and financial liabilities**

**Interest rate sensitivity analysis**

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

<b>At 31 December 2018</b>	<b>Effective interest rate %</b>	<b>Up to 1 month Rial '000</b>	<b>&gt; 1 month to 1 year Rial '000</b>	<b>&gt; 1 year Rial '000</b>	<b>Non-fixed maturity Rial '000</b>	<b>Non-interest bearing Rial '000</b>	<b>Total Rial '000</b>
<b>Assets</b>							
Cash and bank balances		4,973	-	-	-	-	4,973
Statutory deposit	1.5%	-	-	-	250	-	250
Advances		1,278	-	-	-	-	1,278
Net investment in financing activities	6.5%-17%	11,355	111,209	297,076	-	-	419,640
<b>Total assets</b>		<b>17,606</b>	<b>111,209</b>	<b>297,076</b>	<b>250</b>	<b>-</b>	<b>426,141</b>
<b>Liabilities</b>							
Bank borrowings and fixed deposits	3.25%-5.5%	60,357	192,542	68,787	-	-	321,686
Creditors and accruals		-	-	-	-	13,854	13,854
<b>Total liabilities</b>		<b>60,357</b>	<b>192,542</b>	<b>68,787</b>	<b>-</b>	<b>13,854</b>	<b>335,540</b>
Interest rate sensitivity gap		<b>(42,751)</b>	<b>(81,333)</b>	<b>228,289</b>	<b>250</b>	<b>(13,854)</b>	<b>90,601</b>
Cumulative interest rate sensitivity gap		<b>(42,751)</b>	<b>(124,084)</b>	<b>104,205</b>	<b>104,455</b>	<b>90,601</b>	

<b>31 December 2017</b>	<b>Effective interest rate %</b>	<b>Up to 1 month Rial '000</b>	<b>&gt; 1 month to 1 year Rial '000</b>	<b>&gt; 1 year Rial '000</b>	<b>Non-fixed maturity Rial '000</b>	<b>Non-interest bearing Rial '000</b>	<b>Total Rial '000</b>
<b>Assets</b>							
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
<b>Total assets</b>		<b>8,638</b>	<b>86,867</b>	<b>107,654</b>	<b>250</b>	<b>-</b>	<b>203,409</b>
<b>Liabilities</b>							
Bank borrowings and fixed deposits	3.3%-5.25%	13,914	98,259	38,396	-	-	150,569
Creditors and accruals		-	-	-	-	5,368	5,368
<b>Total liabilities</b>		<b>13,914</b>	<b>98,259</b>	<b>38,396</b>	<b>-</b>	<b>5,368</b>	<b>155,937</b>
Interest rate sensitivity gap		<b>(5,276)</b>	<b>(11,392)</b>	<b>69,258</b>	<b>250</b>	<b>(5,368)</b>	<b>47,472</b>
Cumulative interest rate sensitivity gap		<b>(5,276)</b>	<b>(16,668)</b>	<b>52,590</b>	<b>52,840</b>	<b>47,472</b>	