Directors' Report

On behalf of the Board of Directors, I take pleasure in placing before you the results of your Company for the six-month period ended 30 June 2018.

Merger with Oman Orix Leasing Co.

In view of the merger by incorporation of Oman Orix Leasing Company SAOG into National Finance Co. SAOG, the interim condensed financial statements incorporate the financials of the merged entity effective January 1, 2018.

Operating performance

Your Company continues to adopt a conservative approach to credit approvals keeping in view the overall macroeconomic scenario. Within this policy, our approach has been to target customers who satisfy our credit risk appetite. We anticipate a cautious outlook to our credit off take in the medium term and overall, our reading is that the economic climate will continue to remain challenging.

Your company continues to follow a prudent provisioning policy based on its assessment of the risks inherent to its portfolio and is in full compliance with provisioning norms prescribed by the Central Bank of Oman and the International Financial Reporting Standards. Your Company added credit provisions of Rial 1,488K at the end of 30 June 2018.

Net investment in financing activities was at Rial 414.62M as on 30 June 2018. Overall, your Company's net profit was Rial 5.83M for the six months ended 30 June 2018.

While the low global and regional growth forecast for the medium term is expected to create stress on the liquidity and funding costs, your Company is well positioned to deal with the changing business environment as a result of its strong financial position, well established processes, well trained personnel and long experience in this business

Other Matters

Your Company remains committed to improve the skills of all its employees through training and development. We continue to progress on Omanisation and as of 30 June 2018 the Omanisation level stood at 84%, which continued to be higher than the minimum prescribed for finance and leasing companies. Your Company continues to remain committed to providing increased exposure and training to Omani staff to prepare them to assume higher responsibilities.

Acknowledgement

On behalf of the Board of Directors, we express our earnest gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership in creating a dynamic business environment coupled with progressive and prudent economic policies. We also would like to take this opportunity to express our sincere appreciation to the Central Bank of Oman and the Capital Market Authority for their valuable support and advice. Last but not the least, we are grateful to our customers, shareholders, bankers and staff for their continuing support and confidence in the Company.

Taya Jandal Ali
Chairman

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE

	Note	Quarter ended 30 June 2018 Rials '000	Six months ended 30 June 2018 Rials '000	Quarter ended 30 June 2017 Rials '000	Six months ended 30 June 2017 Rials '000
Income from financing activities		**9,715**	**19,559**	4,209	8,486
Finance cost		**(3,670)**	**(7,122)**	(1,424)	(2,844)
Net finance income		**6,045**	**12,437**	2,785	5,642
Other income	*7*	**921**	**1,471**	408	677
Total income		**6,966**	**13,908**	3,193	6,319
Operating expenses					
General and administrative expenses	*8*	**(2,537)**	**(5,083)**	(1,182)	(2,381)
Depreciation	*13*	**(133)**	**(252)**	(72)	(142)
Amortisation	*1.2*	**(64)**	**(128)**	-	-
Profit before impairment and tax		**4,232**	**8,445**	1,939	3,796
Net Impairment loss on lease receivables	*12(b)*	**(435)**	**(1,523)**	(587)	(1,027)
Bad debts written back – net		**7**	**35**	(9)	319
Profit before tax		**3,804**	**6,957**	1,343	3,088
Income tax expense	*9*	**(563)**	**(1,126)**	(13)	(279)
Profit after tax		**3,241**	**5,831**	1,330	2,809
Other comprehensive income					
Items that will never be reclassified to profit or loss					
Movement in revaluation reserve – net of tax		**6**	**13**	6	13
Other comprehensive income for the period		**6**	**13**	6	13
Total comprehensive income for the period		**3,247**	**5,844**	1,336	2,822
Earnings per share (Rial)	*10*	**0.007**	**0.013**	0.005	0.010

The notes on pages 6 to 18 form an integral part of this unaudited condensed interim financial information.

The review report is set forth on page 1.

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT

	Note	**30 June 2018 Rials '000 Unaudited**	30 June 2017 Rials '000 Unaudited	31 December 2017 Rials '000 Audited
Assets				
Cash and bank balances	*19*	**6,549**	3,648	1,897
Statutory deposit	*11*	**250**	250	250
Net investment in financing activities	*12*	**414,616**	191,260	200,539
Advances and prepayments		**2,987**	1,459	1,421
Deferred tax	*9*	**784**	965	779
Goodwill	*1.2*	**6,206**	-	-
Intangible assets	*1.2*	**1,664**	-	-
Property and equipment	*13*	**2,157**	1,736	1,640
Total assets		**435,213**	199,318	206,526
Equity and Liabilities				
Shareholders' Equity				
Share capital	*14*	**50,396**	27,926	27,926
Share Premium		**5,800**	-	-
Reserves		**1,457**	854	840
Legal reserve		**5,495**	4,793	5,495
Retained earnings		**19,833**	11,096	14,619
Total shareholders' equity attributable to the equity holders of the company		**82,981**	44,669	48,880
Perpetual bonds	*15*	**18,069**	-	-
Total equity		**101,050**	44,669	48,880
Liabilities				
Bank borrowings	*17*	**293,600**	128,102	128,761
Fixed deposits	*18*	**27,657**	19,007	21,808
Creditors and accruals	*16*	**10,220**	6,196	5,368
Staff terminal benefits		**567**	620	546
Tax liabilities	*9*	**1,519**	724	1,163
Merger Expenses		**600**	-	-
Total liabilities		**334,163**	154,649	157,646
Total equity and liabilities		**435,213**	199,318	206,526
Net assets per share		**0.201**	0.160	0.175

The unaudited condensed interim financial information from pages 2 to 18 was approved and authorised for issue in accordance with a resolution of the Board of Directors on 29 July 2018 and signed on their behalf by:

TAYA JANDAL ALI
CHAIRMAN

SHAHIN MOHAMMED AL BALUSHI
CHIEF EXECUTIVE OFFICER

The notes on pages 6 to 18 form an integral part of this unaudited condensed interim financial information.

Review report is set forth on page 1.

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

	Share capital Rials '000	Share Premium Rials '000	Reserves & Surplus Rials '000	Legal reserve Rials '000	Retained earnings Rials '000	Total Rials '000	Perpetual bonds Rials '000	Total equity Rials '000
1 January 2018	**27,926**	**-**	**840**	**5,495**	**14,619**	**48,880**	**-**	**48,880**
Total comprehensive income:								
Profit for the period	**-**	**-**	**-**	**-**	**5,831**	**5,831**	**-**	**5,831**
Other comprehensive income								
Incremental depreciation – net of tax	**-**	**-**	**(13)**	**-**	**13**	**-**	**-**	**-**
Total Comprehensive income	**-**	**-**	**(13)**	**-**	**5,844**	**5,831**	**-**	**5,831**
Transfer to reserves	**-**	**-**	**630**	**-**	**(630)**	**-**	**-**	**-**
Transactions with owners:								
Rights Issue	**21,751**	**5,800**	**-**	**-**	**-**	**27,551**	**-**	**27,551**
Ordinary Shares	**719**	**-**	**-**	**-**	**-**	**719**	**-**	**719**
Total transactions with owners	**22,470**	**5,800**	**-**	**-**	**-**	**28,270**	**-**	**28,270**
Proceeds from perpetual bond	**-**	**-**	**-**	**-**	**-**	**-**	**18,069**	**18,069**
30 June 2018 (Unaudited)	**50,396**	**5,800**	**1,457**	**5,495**	**19,833**	**82,981**	**18,069**	**101,050**
1 January 2017	27,113	-	867	4,793	12,882	45,655	-	45,655
Total comprehensive income:								
Profit for the period	-	-	-	-	2,809	2,809	-	2,809
Other comprehensive income:								
Incremental depreciation – net of tax	-	-	(13)	-	13	-	-	-
Total Comprehensive income	-	-	(13)	-	2,822	2,809	-	2,809
Transactions with owners:								
Dividend declared	-	-	-	-	(3,795)	(3,795)	-	(3,795)
Stock dividend	813	-	-	-	(813)	-	-	-
Total transactions with owners	813	-	-	-	(4,608)	(3,795)	-	(3,795)
30 June 2017 (Unaudited)	27,926	-	854	4,793	11,096	44,669	-	44,669
1 January 2017	27,113	-	867	4,793	12,882	45,655	-	45,655
Total comprehensive income:								
Profit for the year	-	-	-	-	7,020	7,020	-	7,020
Other comprehensive income								
Incremental depreciation – net of tax	-	-	(27)	-	27	-	-	-
Total Comprehensive income	-	-	(27)	-	7,047	7,020	-	7,020
Transactions with owners:								
Stock dividend	813	-	-	-	(813)	-	-	-
Dividend declared	-	-	-	-	(3,795)	(3,795)	-	(3,795)
Total transactions with owners	813	-	-	-	(4,608)	(3,795)	-	(3,795)
Transfer to legal reserve (note 17)	-		-	702	(702)	-	-	-
31 December 2017 (Audited)	27,926	-	840	5,495	14,619	48,880	-	48,880

The notes on pages 6 to 18 form an integral part of this unaudited condensed interim financial information.

Review report is set forth on page 1.

NATIONAL FINANCE COMPANY SAOG

UNAUDITED CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED

	Note	30 June 2018 Rials '000	30 June 2017 Rials '000
Cash flows from operating activities			
Profit before tax		**6,957**	3,088
Adjustments for:			
Depreciation		**252**	142
Amortisation		**128**	-
End of service benefits		**150**	55
Impairment of lease receivables		**1,523**	1,027
Bad debts written (back) – net		**(35)**	(319)
Finance cost		**7122**	2,844
		16,097	6,837
End of service benefits paid		**(386)**	(55)
Changes in:			
Net investment in financing activities		**(15,713)**	561
Advances and prepayments		**(781)**	110
Creditors and accruals		**878**	1,848
Interest paid		**(6,654)**	(2,588)
Income tax paid		**(1,844)**	(863)
Net cash from / (used in) operating activities		**(8,403)**	5,850
Cash flows from investing activities			
Purchase of property and equipment		**(245)**	(123)
Statutory deposit received		**250**	
Payment made to former OOLC shareholders		**(48,091)**	-
Net cash used in investing activities		**(48,086)**	(123)
Cash flows from financing activities			
Proceeds / (repayments) from/of bank borrowings	*17*	**12,211**	(3,573)
Proceeds / (repayments) from/of fixed deposits	*18*	**(2,635)**	2,884
Proceeds from Rights Issue		**28,270**	-
Proceeds from Perpetual Bond		**18,069**	-
Dividend paid		**-**	(3,795)
Net cash (used in) / from financing activities		**55,915**	(4,484)
Net change in cash and cash equivalents during the period		**(574)**	1,243
Cash and cash equivalents at the beginning of the period		**1,406**	2,347
Net cash transferred from former OOLC		**2,591**	-
Cash and cash equivalents at the end of the period	*19*	**3,423**	3,590

The notes on pages 6 to 14 form an integral part of this unaudited condensed interim financial information.

Review report is set forth on page 1.

1.1 Legal status and principal activities

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

1.2 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.

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

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 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.

Goodwill and intangible assets on acquisition

	RO'000
(a) Total purchase price	**48,810**
Net assets of OOLC acquired	
Total assets	204,293
Total liabilities	(162,612)
Merger related expense reserve	(600)
(b) Fair value of net assets acquired	**41,081**
(c) Excess purchase price =(a) –(b)	**7,729**
Allocated between:	
(d) Intangible assets identified and valued	
Customer relationships	1,792
(e) Deferred tax liability	(269)
(f) Residual goodwill = (c) –(d) + (e)	**6,206**

OOLC had appropriated RO 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 shall be adjusted for the merger related expense reserve of RO 600,000. The net assets value as on 31 December 2017 of RO 0.160 per share, after adjustment of above merger related expense reserve, shall be considered as RO 0.158 per share. The intangible assets will be amortised over a period of seven years. Amortisation of Rial 128K has been made in the financial statements in respect of intangible assets.

Breakup of Total Assets of OOLC as of 31.12.17:-	RO 000s
Cash and bank balances	2,591
Statutory deposit	250
Net investment in finance leases	199,852
Other receivables and prepayments	891
Deferred tax asset	185
Property and equipment	524
Total	204,293

Breakup of Total Liabilities of OOLC as of 31.12.17:-	RO 000s
Interest Bearing Borrowings	149,235
Corporate Deposits	8,250
Trade and other payables	4,420
Tax Payable	707
Total	162,612

2 Summary of significant accounting policies

This unaudited condensed interim financial information as at and for the six months period ended 30 June 2018 has been prepared in accordance with IAS 34, 'Interim financial reporting' and in compliance with the applicable provisions of the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading ('R&G') issued by the Capital Market Authority ('CMA') of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended. The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ('IFRSs').

This unaudited condensed interim financial information does not include all the information required for full annual financial statements, and should be read in conjunction with the most recent full audited financial statements of the Company as at and for the year ended 31 December 2017.

3 Significant accounting policies

(a) Statement of compliance

This interim financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"), the requirements of the Commercial Companies Law of 1974, as amended and the relevant disclosure requirements of the Capital Market Authority ("CMA") and applicable regulations of the Central Bank of Oman.

(b) Basis of preparation

This interim financial information has been prepared on the historical cost basis except for land and buildings that are shown at revalued amount.

(c) Standards, amendments and interpretation effective in 2018

For the period ended 30 June 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.

(d) 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.

IFRS16 Leases

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

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

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

IFRS 9 Financial Instruments

Based on the assessment undertaken to date, the total estimated impairment provision required from adoption of IFRS 9 on the consolidated closing balance of the Company on 30 June 2018 is approximately Rial 19.72 million.
The actual impact of the estimated impairment amount as of 30 June 2018 may change because:

- Company has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework;
- Company is refining and re-calibrating its IFRS9 impairment model for the merged entity; and
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalizes its financial statements that include the date of initial application.

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

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

Classification and measurement of financial instruments

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

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

Non-derivative financial assets

Amortised cost and effective interest rate

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

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

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

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

Interest on impaired loans is recognised and reserved from income and reversed to the extent of the interest on overdue instalments collected.

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

Initial recognition and measurement

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

Immediately after initial recognition, an ECL is recognized for financial assets measured at amortised cost, which results in an accounting loss being recognized in the statement of profit or loss when an asset is newly originated. 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 form the issuer's perspective, such as cash and bank balances, working capital finance, statutory deposit and other financial receivables.

Classification and subsequent measurement of debt instruments depend on:
The Company's business model for managing the asset; and
The cash flow characteristics of the asset.

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

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

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

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

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

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

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

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

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

A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
If significant increase in credit risks ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

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

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

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

Significant increase in credit risk

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

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

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

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

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

Definition of default

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

- *the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or*

- *the borrower is more than 90 days past due on any material credit obligation to the Company.*

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

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

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

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

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

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

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

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

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

Impairment

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

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

Critical accounting estimates and judgements

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

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.

4 Accounting estimates

The preparation of condensed interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed interim financial information, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2017.

5 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The condensed interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements as at 31 December 2017. There have been no changes in the risk management policies since that date.

6 Operating segment information

The Company has only one reportable segment namely, leasing activities, all of which are carried out in the Sultanate of 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 and are not shared between these two portfolios. All relevant information relating to this reportable segment is disclosed in the unaudited condensed interim statement of financial position, unaudited condensed interim statement of comprehensive income and notes to the interim financial information.

7 Other income

	Quarter ended 30 June 2018 Rials '000	**Six months ended 30 June 2018 Rials '000**	Quarter months ended 30 June 2017 Rials '000	Six months ended 30 June 2017 Rials '000
Penal charges received	**74**	**163**	171	243
Income from pre-closed leases	**115**	**213**	46	101
Miscellaneous income	**732**	**1,095**	191	333
	921	**1,471**	408	677

8 General and administrative expenses

	Quarter ended 30 June 2018 Rials '000	**Six months ended 30 June 2018 Rials '000**	Quarter months ended 30 June 2017 Rials '000	Six months ended 30 June 2017 Rials '000
Employee related expenses	**2,058**	**4,059**	903	1,821
Occupancy costs	**71**	**145**	31	50
Communication costs	**85**	**149**	40	81
Professional fees	**24**	**133**	33	87
Advertising and sales promotion	**26**	**51**	4	21
Directors' sitting fees	**16**	**27**	16	25
Directors' remuneration	**31**	**73**	32	76
Other office expenses	**226**	**446**	123	220
	2,537	**5,083**	1,182	2,381

9 Taxation

The Company has applied an income tax rate of 15% on the taxable profits, (2017- 15%). The reconciliation between the tax expense and the profit before taxation is as follows:

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018 (continued)

	Quarter ended 30 June 2018 Rials '000	Six months ended 30 June 2018 Rials '000	Quarter ended 30 June 2017 Rials '000	Six months ended 30 June 2017 Rials '000
Profit before taxation	**3,804**	**6,957**	1,343	3,088
Income tax expense computed at applicable tax rates	**563**	**1,044**	8	268
Others	**-**	**82**	5	11
Taxation expense	**563**	**1,126**	13	279

	30 June 2018 Rials '000	30 June 2017 Rials '000	31 December 2017 Rials '000
Deferred tax asset	**784**	965	779
Tax liabilities :-			
Deferred tax liability	**620**	115	113
Tax Provision	**899**	609	1,050
	1,519	724	1,163

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 30 June 2018.

10 Earnings per share

	Quarter ended 30 June 2018 Rials '000	Six months ended 30 June 2018 Rials '000	Quarter ended 30 June 2017 Rials '000	Six months ended 30 June 2017 Rials '000
Profit for the period attributable to ordinary shareholders	**2,882**	**5,404**	1,330	2,809
Number of shares ('000)	**413,709**	**413,709**	279,259	279,259
Earnings per share (Rials)	**0.007**	**0.013**	0.005	0.010

Net earnings per share as at and for the six months period ended 30 June 2018 have been calculated using weighted average shares outstanding for the period. The weighted average shares outstanding for the six months period ended 30 June 2018 by adopting the theoretical ex-rights price are 368,582,301 shares (30 June 2017: 279,259,126 shares). Earnings per share have been calculated using the closing number of existing outstanding shares as at 30 June 2018, new shares issued by way of a rights issue for payment of cash consideration to OOLC shareholders and issue of ordinary shares for shareholders of OOLC who opted for share swap option.

11 Statutory Deposit

The Company is required to maintain a deposit of Rials 250,000 (June 2017 – Rials 250,000 and December 2017 - Rials 250,000) with the Central Bank of Oman (CBO) in accordance with the applicable licensing requirements. During the period, the deposit earned interest at the rate of 1.5% per annum (2017 – 1%).

12 Net investment in financing activities

	30 June 2018 Rials '000	30 June 2017 Rials '000	31 December 2017 Rials '000
Gross investment in finance leases	**514,604**	225,773	231,828
Working capital finance	**17,798**	12,323	17,023
Unearned finance income	**(90,368)**	(33,622)	(35,703)
	442,034	204,474	213,148
Provision for impairment of lease receivable	**(24,755)**	(12,115)	(11,385)
Unrecognised contractual income	**(2,663)**	(1,099)	(1,224)
	414,616	191,260	200,539

(a) Unearned finance income:

	30 June 2018 Rials '000	30 June 2017 Rials '000	31 December 2017 Rials '000
Opening balance	**35,703**	32,708	32,708
Transfer from former OOLC	**46,397**	-	-
Additions during the period/year	**27,827**	9,400	20,335
Recognised during the period/year	**(19,559)**	(8,486)	(17,340)
Closing balance	**90,368**	33,622	35,703

(b) Provision for impairment of lease receivable:

	30 June 2018 Rials '000	30 June 2017 Rials '000	31 December 2017 Rials '000
Opening balance	**11,385**	11,088	11,088
Transfer from former OOLC	**11,847**	-	-
Provided during the period/year	**7,204**	1,686	2,487
Released during the period/year	**(5,681)**	(659)	(2,190)
Written off during the period/year	**-**	-	-
Closing balance	**24,755**	12,115	11,385

(c) Unrecognised contractual income:

	30 June 2018 Rials '000	30 June 2017 Rials '000	31 December 2017 Rials '000
Opening balance	**1,224**	924	924
Transfer from former OOLC	**674**	-	-
Additions during the period/year	**1,211**	322	489
Recognised during the period/year	**(446)**	(147)	(189)
Closing balance	**2,663**	1,099	1,224

(d) Contractual income is not recognised by the Company on impaired finance leases to comply with the rules, regulations and guidelines issued by the Central Bank of Oman. As at 30 June 2018, net investment in financing leases where contractual income has not been recognised was Rials 44.03 million (30 June 2017 - Rials 15.55 million, 31 December 2017 - Rials 16.05 million).

13 Property and equipment

	Freehold land Rials '000	Buildings Rials '000	Furniture, fixtures and equipment Rials '000	Motor vehicles Rials '000	Total Rials '000
At 30 June 2018					
Cost or valuation					
At 1 January 2018	**955**	**600**	**1,829**	**203**	**3,587**
Transfer from former OOLC	**-**	**-**	**1,157**	**170**	**1,327**
Additions	**-**	**-**	**245**	**-**	**245**
At 30 June 2018	**955**	**600**	**3,231**	**373**	**5,159**
Accumulated depreciation					
At 1 January 2018	**-**	**383**	**1,496**	**68**	**1,947**
On assets transferred from former OOLC	**-**	**-**	**703**	**100**	**803**
Charge for the period		**16**	**189**	**47**	**252**
At 30 June 2018	**-**	**399**	**2,388**	**215**	**3,002**
Net book value					
At 30 June 2018	**955**	**201**	**843**	**158**	**2,157**
At 30 June 2017					
Cost or valuation					
At 1 January 2017	955	600	1,659	203	3,417
Additions	-	-	123	-	123
At 30 June 2017	955	600	1,782	203	3,540
Accumulated depreciation					
At 1 January 2017	-	353	1,309	-	1,662
Charge for the period	-	15	93	34	142
At 30 June 2017	-	368	1,402	34	1,804
Net book value					
At 30 June 2017	955	232	380	169	1,736
At 31 December 2017					
Cost or valuation	955	600	1,659	203	3,417
At 1 January 2017					
Additions	-	-	170	-	170
Disposals					
At 31 December 2017	955	600	1,829	203	3,587
Accumulated depreciation					
At 1 January 2017	-	353	1,309	-	1,662
Charge for the year	-	30	187	68	285
Disposals					
At 31 December 2017	-	383	1,496	68	1,947
Net book value					
At 31 December 2017	955	217	333	135	1,640

14 Share capital

The authorised share capital of the Company comprises 750,000,000 ordinary shares of baizas 100 each (30 June 2017 and 31 December 2017 – 300,000,000 ordinary shares of baizas 100 each). The Company's issued and fully paid-up share capital amounts to 503,964,075 ordinary shares of baizas 100 each (30 June 2017 and 31 December 2017 - 279,259,126 ordinary shares of baizas 100 each).

15 Perpetual Bond

The Company issued 8% Perpetual Bond for Rials 18.2 million through private placement during the period for payment of purchase consideration to OOLC shareholders which are mentioned at net of bond issue expenses of Rial 131k.

16 Creditors and accruals

	30 June 2018 Rials '000	30 June 2017 Rials '000	31 December 2017 Rials '000
Creditors	**7,352**	5,332	4,194
Accruals and other liabilities	**2,868**	864	1,174
	10,220	6,196	5,368

17 Bank borrowings

	30 June 2018 Rials '000	30 June 2017 Rials '000	31 December 2017 Rials '000
Overdrafts	**3,126**	58	491
Short-term loans	**95,961**	48,897	46,951
Current portion of long-term loans	**133,674**	69,866	52,204
Long-term loans	**60,839**	9,281	29,115
	293,600	128,102	128,761

(a) During the period, interest was charged on the above borrowings at rates ranging between 3.50% and 5.50% per annum (June 2017- 2.65% 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) Company has entered into a foreign currency forward contract in the amount of RO 36.18 M [USD 94.08 M] (June - 2017 – RO 8.99 M [USD 23 M], Dec-2017 - RO 11.6 M [USD 30.2 M]) with a local financial institution to hedge its USD payments. As at 30 June 2018, the aggregate fair value of foreign currency forward contract is RO 36.18 M [USD 94.08 M] (June -2017 – RO 8.99 M [USD 23 M], Dec-2017 - RO 11.6 M [USD 30.2 M]) to repay US Dollar term loans.

18 Fixed deposits

The Company has fixed deposits from corporate entities based in Oman amounting to Rials 27.66 million, (30 June 2017 - Rials 20.3 million and 31 December 2017 - Rials 21.8 million) with tenures ranging from 6 months to 5 years, as per guidelines issued by the Central Bank of Oman. These deposits carry interest rates between 3.65% to 5.20% (30 June 2017 – 2.7% to 5.2% and 31 December 2017 – 3.2% and 5.2%) per annum. The carrying amount includes interest accrued till the end of the reporting period.

19 Cash and cash equivalents

	30 June 2018 Rials '000	30 June 2017 Rials '000	31 December 2017 Rials '000
Cash and bank balances	**6,549**	3,648	1,897
Bank overdrafts	**(3,126)**	(58)	(491)
	3,423	3,590	1,406

RO'000s

Change in cash flows from financing activities (Principal)

Particulars	**Cash flow from Bank Borrowings**	**Cash flow from Fixed Deposits**
Opening Balance	**128,110**	**21,064**
Balance transferred from OOLC	**149,029**	**8,250**
Additions during the period	**113,043**	**843**
Repayments during the period	**(100,060)**	**(3,480)**
Closing Balance	**290,122**	**26,677**
Change in cash flows	**12,983**	**(2,637)**

20 Related parties

The Company has entered into transactions with entities over which certain directors are able to exert significant influence, with the Directors and Senior Management. Such transactions are at mutually agreed terms. Significant related party transactions during the period were as follows:

	Six Months ended 30 June 2018 Rials '000	Six Months ended 30 June 2017 Rials '000
General and administration overheads	1	1
Sales incentive paid	53	96
Payments to directors (note 9)		
Sitting fees	27	25
Remuneration	73	76
	100	101
Remuneration to key members of management during the period		
Salaries and other benefits (top 5 employees)	519	486

21 Maturity analysis of significant assets and liabilities

At 30 June 2018	Up to 1 month Rials '000	> 1 month to 1 year Rials '000	> 1 year Rials '000	Non-fixed maturity Rials '000	Total Rials '000
Assets					
Cash and bank balances	6,549	-	-	-	6,549
Statutory deposit	-	-	-	250	250
Net investment in financing activities	11,098	142,620	260,898	-	414,616
Advances and prepayments	-	2,987	-	-	2,987
Deferred tax asset	-	-	-	784	784
Goodwill	-	-	-	6,206	6,206
Intangible Asset	-	-	-	1,664	1,664
Property and equipment	-	-	-	2,157	2,157
Total assets	17,647	145,607	260,898	11,061	435,213
Equity and liabilities					
Equity	-	-	-	101,050	101,050
Liabilities					
Bank borrowings and fixed deposits	50,523	205,198	65,536	-	321,257
Creditors and accruals	-	10,220	-	-	10,220
Tax liabilities	-	899	-	620	1,519
Staff terminal benefits	-	-	-	567	567
Merger Expenses	-	-	-	600	600
Total equity and liabilities	50,523	216,317	65,536	102,837	435,213
Liquidity gap	(32,876)	(70,710)	195,362	(91,776)	
Cumulative liquidity gap	(32,876)	(103,586)	91,776	-	

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018 (continued)

21 Maturity analysis of significant assets and liabilities (Continued)

At 30 June 2017	Up to 1 month Rials '000	> 1 month to 1 year Rials '000	> 1 year Rials '000	Non-fixed maturity Rials '000	Total Rials '000
Assets					
Cash and bank balances	3,648	-	-	-	3,648
Statutory deposit	-	-	-	250	250
Net investment in financing activities	6,792	75,281	109,187	-	191,260
Deferred tax	-	-	-	965	965
Advances and prepayments	-	1,459	-	-	1,459
Property and equipment	-	-	-	1,736	1,736
Total assets	10,440	76,740	109,187	2,951	199,318
Equity and liabilities					
Equity	-	-	-	44,669	44,669
Liabilities					
Bank borrowings and fixed deposits	18,329	109,075	19,075	-	147,109
Creditors and accruals	6,196	-	-	-	6,196
Staff terminal benefits	-	-	-	620	620
Tax liability	-	609	-	115	724
Total equity and liabilities	24,525	109,684	19,705	45,404	199,318
Liquidity gap	(14,085)	(32,944)	89,482	(42,453)	
Cumulative liquidity gap	(14,085)	(47,029)	42,453	-	

At 31 December 2017	Up to 1 month Rials '000	> 1 month to 1 year Rials '000	> 1 year Rials '000	Non-fixed maturity Rials '000	Total Rials '000
Assets					
Cash and bank balances	1,897	-	-	-	1,897
Statutory deposit	-	-	-	250	250
Net investment in financing activities	6,018	86,867	107,654	-	200,539
Advances and prepayments	-	1,421	-	-	1,421
Deferred tax asset	-	-	-	779	779
Property pending sale	-	-	-		
Property and equipment	-	-	-	1,640	1,640
Total assets	7,915	88,288	107,654	2,669	206,526
Equity and Liabilities					
Equity	-	-	-	48,880	48,880
Liabilities					
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
Total equity and liabilities	13,914	104,799	38,396	49,417	206,526
Liquidity gap	(5,999)	(16,511)	69,258	(46,748)	
Cumulative liquidity gap	(5,999)	(22,510)	46,748		