Directors' Report

On behalf of the Board of Directors, I take pleasure in placing before you the results of the Company for the nine month period ended 30 September 2018.

Merger with Oman Orix Leasing Co. SAOG

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

Operating performance

The Company has a well-diversified geographical spread inside Oman, coupled with a diversified product profile and is well positioned to meet the financing requirements of both the Retail and SME segments. We anticipate a reasonable credit offtake in the medium term with a need to balance credit risk with positive market growth.

The 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.

The 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. The Company created net provisions of Rial 0.26 million at the end of 30 September 2018. Net investment in financing activities was at Rial 420.50 million as on 30 September 2018. Overall, the Company's net profit was Rial 9.76 million for the nine months ended 30 September 2018.

While the low global and regional growth forecast for the medium term is expected to create stress on the liquidity and funding costs, the 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.

Dividend

The Board of Directors recommends distribution of 8.31% cash dividend on the capital as of 30.09.2018 (RO 50.396 million) out of the profits for the year ended December 31, 2017. This dividend would be paid to the shareholders who are registered with the Muscat Clearing and Depository as on the date of the Ordinary General Meeting, which is likely to be held during December 2018.

Omanisation

The company remains committed to Omanisation and as on 30 September 2018, the number of Omani staff was 269 out of the total staff strength of 319. The Omanisation percentage works out to 84.64% which is more than the prescribed target of 80%. The Company continues to remain committed to providing increased exposure and training to Omani staff to prepare them to assume higher responsibilities.

Acknowledgement

I am joined by all the members of the Board of Directors and the Management in expressing deep gratitude to His Majesty Sultan Qaboos Bin Said for his dynamic and progressive leadership. We also extend our sincere gratitude to the regulators and all the stakeholders for the support extended for the growth of the Company.

On behalf of the Board of Directors I also thank the management and staff for their dedication and hard work.

Taya Jandal Ali
Chairman

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE NINE MONTHS PERIOD ENDED

	Note	**30 September 2018 (Audited) Rials '000**	30 September 2017 (Unaudited) Rials '000
Income from financing activities		**29,481**	12,733
Finance costs		**(10,938)**	(4,280)
Net finance income		**18,543**	8,453
Other operating income	6	**2,072**	944
Total income		**20,615**	9,397
Operating expenses			
General and administrative expenses	7	**(8,158)**	(3,532)
Depreciation	13	**(404)**	(214)
Amortisation	1.2	**(192)**	-
Profit before impairment and tax		**11,861**	5,651
Impairment loss on lease receivables	12	**(297)**	(1,699)
Bad debts written back - net		**34**	324
Profit before tax		**11,598**	4,276
Income tax expense	8	**(1,838)**	(461)
Profit after tax		**9,760**	3,815
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Movement in revaluation reserve – net of tax	13	**20**	20
Other comprehensive income for the period		**20**	20
Total comprehensive income for the period		**9,780**	3,835
Basic and diluted earnings per share (Rial)- restated	9	**0.020**	0.012

The notes and other explanatory information on pages 6 to 39 form an integral part of these financial statements.

Independent auditors’ report- pages 1(a)-1(f).

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF FINANCIAL POSITION
AS AT

	Note	30 September 2018 (Audited) Rials '000	31 December 2017 (Audited) Rials '000
ASSETS			
Cash and bank balances	10	**8,006**	1,897
Statutory deposit	11	**250**	250
Net investment in financing activities	12	**420,498**	200,539
Advances and prepayments		**2,985**	1,421
Deferred tax	8	**370**	779
Goodwill	1.2	**6,206**	-
Intangible assets	1.2	**1,600**	-
Property and equipment	13	**2,334**	1,640
Total assets		**442,249**	206,526
EQUITY AND LIABILITIES			
EQUITY			
Capital and reserves			
Share capital	14	**50,396**	27,926
Share premium		**5,800**	-
Reserves		**1,445**	840
Legal reserve	15	**5,495**	5,495
Retained earnings		**23,040**	14,619
Total shareholders' equity attributable to the equity holders of the company		**86,176**	48,880
Perpetual bonds	16	**18,069**	-
Total equity		**104,245**	48,880
LIABILITIES			
Creditors and accruals	17	**10,023**	5,368
End of service benefits	18	**678**	546
Tax liabilities	8	**1,541**	1,163
Bank borrowings	19	**297,988**	128,761
Fixed deposits	20	**27,774**	21,808
Total liabilities		**338,004**	157,646
Total equity and liabilities		**442,249**	206,526
Net assets per share (Rial)	9	**0.207**	0.175

These financial statements were approved and authorised for issue in accordance with a resolution of the Board of Directors on 25 October 2018 and signed on their behalf by:

TAYA JANDAL ALI
CHAIRMAN

SUNIL KUMAR PHERWANI
GENERAL MANAGER

The notes and other explanatory information on pages 6 to 39 form an integral part of these financial statements.

Independent auditors' report- pages 1(a)-1(f).

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018

	Share capital Rials '000	Share Premium Rials '000	Reserves** Rials '000	Legal Reserve* Rials '000	Retained earnings Rials '000	Total Rials '000	Perpetual bonds Rials '000	Total Rials '000
1 January 2018	**27,926**	**-**	**840**	**5,495**	**14,619**	**48,880**	**-**	**48,880**
Changes on initial application of IFRS 9 net of tax (note 2.1)	-	-	-	-	-	-	-	-
Restated balance at 1 January 2018	**27,926**	**-**	**840**	**5,495**	**14,619**	**48,880**	**-**	**48,880**
Total comprehensive income:								
Profit for the period	-	-	-	-	**9,760**	**9,760**	-	**9,760**
Other comprehensive income								
Incremental depreciation – net of tax	-	-	**(20)**	-	**20**	-	-	-
Total Comprehensive income	-	-	**(20)**	-	**9,780**	**9,760**	-	**9,760**
Transfer to reserves	-	-	**625**	-	**(625)**	-	-	-
Transactions with owners:								
Rights Issue (note 1.2)	**21,751**	**5,800**	-	-	-	**27,551**	-	**27,551**
Ordinary Shares (note 1.2)	**719**	-	-	-	-	**719**	-	**719**
Proceeds from perpetual bond (note 16)	-	-	-	-	-	-	**18,069**	**18,069**
Perpetual Bond interest paid (note 16)	-	-	-	-	**(734)**	**(734)**	-	**(734)**
Total transactions with owners	**22,470**	**5,800**	-	-	**(734)**	**27,536**	**18,069**	**45,605**
30 September 2018 (Audited)	**50,396**	**5,800**	**1,445**	**5,495**	**23,040**	**86,176**	**18,069**	**104,245**
1 January 2017	27,113	-	867	4,793	12,882	45,655	-	45,655
Total comprehensive income:								
Profit for the period	-	-	-	-	3,815	3,815	-	3,815
Other comprehensive income								
Incremental depreciation – net of tax	-	-	(20)	-	20	-	-	-
Total Comprehensive income	-	-	(20)	-	3,835	3,815	-	3,815
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)
30 September 2017 (Unaudited)	27,926	-	4,793	5,495	12,109	45,675	-	45,675

The notes and other explanatory information on pages 6 to 39 form an integral part of these financial statements.
Independent auditors' report- pages 1(a)-1(f).

*Transfer to Legal reserve is made on an Annual basis.
** It includes revaluation reserve, foreign currency reserve and reserve on restructured loans as per CBO guidelines

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS PERIOD ENDED

	Note	30 September 2018 (Audited) Rials '000	30 September 2017 (Unaudited) Rials '000
Cash flows from operating activities			
Profit before tax		**11,598**	4,276
Adjustments for:			
Depreciation		**404**	214
Amortisation		**192**	-
End of service benefits	18	**210**	62
(Gain) on sale of fixed asset		**(18)**	-
Impairment of lease receivables		**297**	1,699
Bad debts written (back) – net		**(34)**	(324)
Finance costs		**10,938**	4,280
		23,587	10,207
End of service benefits paid	18	**(340)**	(64)
Changes in:			
Net investment in financing activities		**(20,370)**	183
Advances and prepayments		**945**	204
Creditors and accruals		**(1,913)**	1,522
Interest paid		**(10,434)**	(3,912)
Income tax paid		**(1,844)**	(863)
Net cash (used in) / from operating activities		**(10,369)**	7,277
Cash flows from investing activities			
Purchase of property and equipment		**(574)**	(144)
Proceeds from sale of fixed assets		**18**	-
Statutory deposit received		**250**	-
Acquisition of OOLC	1.2	**(48,091)**	-
Net cash used in investing activities		**(48,397)**	(144)
Cash flows from financing activities			
Proceeds / (repayments) from/of bank borrowings	22	**17,768**	(7,501)
Proceeds / (repayments) from/of fixed deposits	22	**(2,672)**	2,336
Proceeds from rights and ordinary share issue		**28,270**	-
Proceeds from perpetual bond		**18,069**	-
Perpetual bond interest paid		**(734)**	(3,795)
Net cash from / (used in) financing activities		**60,701**	(8,960)
Net change in cash and cash equivalents during the period		**1,935**	(1,827)
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	22	**5,932**	520

The notes and other explanatory information on pages 6 to 39 form an integral part of these financial statements.

Independent auditors' report- pages 1(a) - 1 (f).

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 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.

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) <u>Goodwill and intangible assets on acquisition</u>

	(Audited) Rial '000
(a) Consideration transferred	**48,810**
Cash	48,091
Equity instruments	719
Net assets of OOLC acquired at fair value	
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 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 192K has been made in the financial statements in respect of intangible assets.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

1 General *(continued)*

1.2 Business combination *(continued)*

(**<u>b) Identifiable assets acquired and liabilities assumed</u>**

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

	(Audited) Rial '000
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)
Total identifiable net assets acquired	**41,681**

Measurement of fair values

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

Assets acquired	**Valuation technique**
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.

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 periods presented, unless otherwise stated.

2.1 Basis of preparation

(a) Statement of compliance

The special purpose financial statements (hereinafter 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 solely for the purpose of submitting to the Central Bank of Oman and Capital Market Authority, in lieu of the Company declaring dividend, and may not be suitable for any other purpose. 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.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

For the period ended 30 September 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.

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, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not early adopt any requirements of IFRS 9 and IFRS 15 in previous periods.

IFRS 9 – Financial Instruments

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 period. The Company has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

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

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 applied to the current period (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:

	31 December 2017 IAS 39		**1 January 2018 IFRS 9**	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets		Rial'000		Rial'000
Cash and bank balances	Amortised cost (Loans and receivables)	1,897	Amortised cost	1,897
Investment in finance leases – Note (a)	Amortised cost (Loans and receivables)	200,539	Finance lease	200,539
Statutory deposit	Amortised cost (Loans and receivables)	250	Amortised cost	250
Other financial receivables	Amortised cost (Loans and receivables)	1,421	Amortised cost	1,421
Total financial assets		**204,107**		**204,107**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation (*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.

	IAS 39 carrying amount 31 December 2017	**Reclassifications**	**Remeasurements (effect of change in impairment)**	**IFRS 9 carrying amount 1 January 2018**
	Rial'000	Rial'000	Rial'000	Rial'000
Amortised cost				
Cash and bank balances	1,897	-	-	1,897
Statutory deposit	250	-	-	250
Other financial receivables	1,421	-	-	1,421
Finance leases				
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.

	IAS 39 Impairment / IAS 37 Provision	**Reclassifications**	**Premeasurements**	**IFRS 9 Impairment**
	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	-	-	-	-
Total	**-**	**-**	**-**	**-**
Finance lease receivables				
Investment in finance leases	11,385	-	-	11,385
Total	**11,385**	**-**	**-**	**11,385**
Commitments				
Undrawn lease commitment	-	-	-	-
Total	**-**	**-**	**-**	**-**

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 30 September 2018 is equal to the total estimated provision requirement on adoption of IFRS 9. However, this will be reassessed periodically and appropriately dealt with as per requirements.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation (*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.

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

Certain new accounting standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 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 is in the process of assessing the potential impact of IFRS16 on its financial statements.

2.2 Revenue recognition

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

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

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

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. Income from finance leases represents gross earnings on finance leases allocated to the period of the lease using the net investment method, which reflects a constant periodic rate of return.

2 Summary of significant accounting policies *(continued)*

2.4 Financial assets and liabilities

Measurement method

Policy applicable from 1 January 2018

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 amortisation 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 recognised in the statement of profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial asset, except for credit impaired (see definition on note 3.1.1) financial assets. Interest revenue for credit impaired assets is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL provision).

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.

Policy applicable before 1 January 2018

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

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

2 Summary of significant accounting policies *(continued)*

2.4 Financial assets and liabilities *(continued)*

2.4.1 Financial assets

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 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 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.

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 period.

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

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 assesses on a forward-looking basis the ECL associated with its financial assets carried at amortised cost. The Company recognises 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.

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 reorganisation;
- 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.

2 Summary of significant accounting policies *(continued)*

2.4 Financial assets and liabilities *(continued)*

2.4.1 Financial assets (*continued*)

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.

Modification of financial assets

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 derecognises the original financial asset and recognises 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 recognises 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 derecognised 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.

2 Summary of significant accounting policies *(continued)*

2.4 Financial assets and liabilities *(continued)*

2.4.2 Financial liabilities

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 (note 2.4).

Derecognition

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

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 Summary of significant accounting policies *(continued)*

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.

2.10 Creditors and accruals

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

2.11 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

2 Summary of significant accounting policies *(continued)*

2.13 Taxation

Income tax on the result for the period comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

2.14 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 Summary of significant accounting policies *(continued)*

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.

2.19.3 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

2.19.4 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 counter parties, groups and industries with respect to its lease receivables.

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

3 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).

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 7.994 million at 30 September 2018 (31 December 2017 –Rial 1.894million). The cash at bank are held with bank, which are rated at 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.

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 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:-

3 Financial risk management *(continued)*

3.1 Credit risk (*continued*)

3.1.1 Credit risk measurement *(continued)*

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

In order to minimise credit loss, wherever deemed necessary, additional credit enhancements such as charges on immoveable and moveable assets, personal guarantees of the major shareholders, corporate guarantee of the parent company in case of 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

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	Provision required as per CBO norms	Provision held as per IFRS 9	Difference	Net carrying amount	Interest recognised as per IFRS 9	Reserve interest as per CBO Norms
	Stage 1	367,238	4,939	2,500	2,439	364,738	25,562	-
Standard	Stage 2	29,554	397	4,955	(4,558)	24,599	2,307	-
	Stage 3	798	11	224	(213)	574	48	-
Subtotal		397,590	5,347	7,679	(2,332)	389,911	27,917	
	Stage 1	166	17	3	14	163	14	-
Special Mention	Stage 2	3,151	242	913	(671)	2,203	189	35
	Stage 3	14,553	719	3,033	(2,314)	11,149	728	371
Subtotal		17,870	978	3,949	(2,971)	13,515	931	406
	Stage 1	102	25	21	4	81	11	-
Substandard	Stage 2	666	165	272	(107)	389	47	5
	Stage 3	8,555	2,052	1,948	104	6,262	239	345
Subtotal		9,323	2,242	2,241	1	6,732	297	350
	Stage 1	18	7	1	6	17	1	-
Doubtful	Stage 2	292	136	121	15	171	18	-
	Stage 3	4,861	1,797	2,049	(252)	2,528	156	284
Subtotal		5,171	1,940	2,171	(231)	2,716	175	284
	Stage 1	13	8	-	8	13	2	-
Loss	Stage 2	160	126	16	110	144	15	-
	Stage 3	17,206	12,888	7,473	5,415	7,467	144	2,266
Subtotal		17,379	13,022	7,489	5,533	7,624	161	2,266
	Stage 1	367,537	4,996	2,525	2,471	365,012	25,590	-
Total	Stage 2	33,823	1,066	6,277	(5,211)	27,506	2,576	40
	Stage 3	45,973	17,467	14,727	2,740	27,980	1,315	3,266
	Total	**447,333**	**23,529**	**23,529**	**-**	**420,498**	**29,481**	**3,306**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

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**	**Provision required as per CBO norms**	**Provision held as per IFRS 9**	**Difference**	**Net carrying amount**	**Interest recognised as per IFRS 9**	**Reserve interest as per CBO Norms**
Classified as performing	Stage 1	2	-	-	-	2	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		2	-	-	-	2	-	-
Classified as non-performing	Stage 1	153	31	15	16	138	14	-
	Stage 2	1,972	510	756	(246)	1,209	126	7
	Stage 3	3,074	1,602	1,057	545	1,680	67	337
Subtotal		5,199	2,143	1,828	315	3,027	206	344
Total	Stage 1	155	31	15	16	140	14	-
	Stage 2	1,972	510	756	(246)	1,209	126	7
	Stage 3	3,074	1,602	1,057	545	1,680	67	337
	Total	**5,201**	**2,143**	**1,828**	**315**	**3,029**	**207**	**344**

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

	As per CBO norms		**As per IFRS 9**		**Difference**	
	Current year	Previous year	Current year	Previous year	Current year	Previous year
Impairment loss charged to profit and loss	297	-	297	-	-	-
Provisions required as per CBO norms / held as per IFRS 9	297	-	297	-	-	-
Gross NPL ratio	11.1	-	10.3	-	0.8	-
Net NPL ratio	7.3	-	6.7	-	0.6	-

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:

	As at 30 September 2018 (Audited)				As at 31 December 2017
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	Total
	Rial’000	Rial’000	Rial’000	Rial’000	Rial’000
Cash and bank balances	**8,006**	**-**	**-**	**8,006**	1,897
Investment in finance leases	**367,537**	**33,823**	**45,973**	**447,333**	213,148
Statutory deposit	**250**	**-**	**-**	**250**	250
Other financial receivables	**1,955**	**-**	**-**	**1,955**	723
Carrying amount before loss allowance	**377,748**	**33,823**	**45,973**	**457,544**	216,018
Loss allowance	**2,525**	**6,277**	**18,032**	**26,835**	12,609
Carrying amount after loss allowance	**375,223**	**27,545**	**27,941**	**430,709**	203,409

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

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:

	30 September 2018	31 December 2017
	Rial'000	Rial'000
Undrawn finance lease commitments	**8,736**	4,461
Carrying amount	**8,736**	4,461

The above tables represents a worst case scenario of credit risk exposure of the Company at 30 September 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.

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

	31 December 2017 (Audited) Rial '000
Neither past due nor impaired	159,641
Past due but not impaired	37,460
Impaired	16,047
Total	213,148

(a) Finance lease receivables neither past due nor impaired

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

	31 December 2017 (Audited) Rial '000
Fair value of collaterals	98,368

(b) Finance lease receivables past due but not impaired

	31 December 2017 (Audited) Rial '000
Past due up to 30 days	21,558
Past due 30 to 60 days	10,768
Past due 60 to 90 days	5,134
Total	37,460
Fair value of collaterals	22,437

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

3 Financial risk management *(continued)*

3.1 Credit risk (*continued*)

3.1.5 Finance lease receivables (*continued*)

(c) Finance lease receivables individually impaired

	31 December 2017 (Audited) 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

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Individuals	**228,675**	117,419
SME & Corporate	**191,823**	83,120
	420,498	200,539

(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 33.7 million (2017 - Rial 11.6 million) denominated in US Dollars.

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

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Trading, contracting and services	**173,238**	64,386
Individuals	**228,675**	117,419
Manufacturing	**18,585**	18,734
	420,498	200,539

3.2 Market risk

3.2.1 Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

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 period end, the impact on the Company's profit after tax of a 1% increase in interest rates would be a maximum reduction of Rial 1.741 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 33.7 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 30 September 2018 is Rial 33.7 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.

At 30 September 2018 (Audited)	**Up to 1 month Rial '000**	**> 1 month to 1 year Rial '000**	**> 1 year to 5 years Rial '000**	**Non-fixed maturity Rial '000**	**Total Rial '000**
Bank borrowings and deposits	**38,462**	**212,303**	**74,997**	**-**	**325,762**
Creditors and accruals	**-**	**10,023**	**-**	**-**	**10,023**
Financial liabilities	**38,462**	**222,326**	**74,997**	**-**	**335,785**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

3 Financial risk management *(continued)*

3.3 Funding approach (*continued*)

3.3.2 Off balance sheet items

	30 September 2018 (Audited) Rial ’000	31 December 2017 (Audited) Rial ’000
Approved lease commitments (note 23)	**8,736**	4,461
Bank guarantees (note 24)	**816**	979
Total exposure	**9,552**	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 3 years and carry commercial interest rate.

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

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

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

5 Operating segments

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

6 Other operating income

	Nine months ended 30 September 2018 (Audited) Rials '000	Nine months ended 30 September 2017 (Un-audited) Rials '000
Penal charges received	**225**	299
Income from pre-closed leases	**301**	151
Miscellaneous income	**1,546**	494
	2,072	944

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

7 General and administrative expenses

	Nine months ended 30 September 2018 (Audited) Rials '000	Nine months ended 30 September 2017 (Un-audited) Rials '000
Employee related expenses	**6,602**	2,708
Occupancy costs	**224**	81
Communication costs	**198**	115
Professional fees and subscriptions	**136**	139
Advertising and sales promotion	**63**	25
Directors' remuneration and sitting fees	**152**	149
Other office expenses	**783**	315
	8,158	3,532

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

	Nine months ended 30 September 2018 (Audited) Rials '000	Nine months ended 30 September 2017 (Un-audited) Rials '000
Salaries and allowances	**5,739**	2,348
Other benefits	**358**	112
Social security costs	**249**	158
End of service benefits (note 18)	**210**	61
Other incentives	**46**	29
	6,602	2,708

The total number of employees as at 30 September 2018 is 319 (September 2017-162, December 2017-161).

8 Taxation

Components of taxation for the period

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 30 September 2018.

(b) Tax liabilities

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Deferred tax asset	**(370)**	(779)
Deferred tax liability	**340**	113
Provision for income tax	**1,201**	1,050
Net tax liabilities / (assets)	**1,171**	384

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

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:

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
1 January	**779**	770
Transfer from former OOLC	**185**	-
Addition during the period/year	**-**	196
Reduction during the period/year	**(594)**	(187)
Closing balance	**370**	779

(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:

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
1 January	**113**	118
Additions during the period/year	**269**	-
Released during the period/year	**(42)**	(5)
Closing balance	**340**	113

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

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
1 January	**1,050**	995
Transfer from former OOLC	**707**	-
Income tax charge for the period/year	**1,288**	918
Paid during the period/year	**(1,844)**	(863)
Closing balance	**1,201**	1,050

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 period:

	30 September 2018 (Audited) Rial '000	30 September 2017 (Un-audited) Rial '000
Accounting profit before income tax	**11,598**	4,276
Income tax expense computed at applicable tax rates	**1,740**	641
Items not deductible (net) in determining taxable profits	**98**	118
Current tax - prior years	**-**	(105)
Deferred tax – prior years	**-**	(193)
		-
Tax charge for the period	**1,838**	461

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

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

The calculation of earnings per share is as follows:

	Nine months ended 30 September 2018 (Audited)	Nine months ended 30 September 2017 (Un-audited)
Profit for the period attributable to ordinary shareholders (Rial '000)	**9,046**	3,815
Net assets (Rial '000)	**104,245**	45,675
Weighted average number of shares during the year ('000)	**458,836**	323,455
Number of shares at the period end ('000)	**503,964**	279,225
Earnings per share (Rial)	**0.020**	0.012
	30 September 2018 (Audited)	31 December 2017 (Audited)
Net assets per share (Rial)	**0.207**	0.175

Net earnings per share as at and for the nine months period ended 30 September 2018 have been calculated using weighted average shares outstanding for the period. The weighted average shares outstanding for the nine months period ended 30 September 2018 by adopting the theoretical ex-rights price are 458,836,053 shares (30 September 2017: 323,455,425 shares). Earnings per share have been calculated using weighted average outstanding shares as at 30 September 2018.

10 Cash and bank balances

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Bank current accounts	**7,994**	1,894
Cash in hand	**12**	3
	8,006	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 period, the deposit earned effective interest at the rate of 1.5% per annum (2017-1%).

12 Net investment in financing activities

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Gross investment in finance leases	**523,291**	231,828
Working capital finance	**18,855**	17,023
Unearned lease income	**(94,813)**	(35,703)
	447,333	213,148
Provision for impairment of lease receivable	**(23,529)**	(11,385)
Unrecognised contractual income	**(3,306)**	(1,224)
Net investment in financing activities	**420,498**	200,539

(a) Contractual income is not recognised by the Company on impaired finance leases to comply with the rules, regulations and guidelines issued by the Central Bank of Oman. At 30 September 2018, net investment in finance activities where contractual income has not been recognised was Rial 49.74 million (30 September 2017 –Rial 18.55 million, 31 December 2017 –Rial 16.05 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

12 Net investment in financing activities *(continued)*

(b) Unearned lease income:

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Opening balance	**35,703**	32,708
Transfer from former OOLC	**46,397**	-
Additions during the period/year	**42,194**	20,335
Recognised during the period/year	**(29,481)**	(17,340)
Closing balance	**94,813**	35,703

(c) Provision for impairment of lease receivable:

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Opening balance	**11,385**	11,088
Transfer from former OOLC	**11,847**	-
Provided during the period/year	**7,720**	2,487
Released during the period/year	**(7,423)**	(2,190)
Written off during the period/year	**-**	-
Closing balance	**23,529**	11,385

(d) Unrecognised contractual income:

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Opening balance	**1,224**	924
Transfer from former OOLC	**674**	-
Additions during the period/year	**1,719**	489
Recognised during the period/year	**(311)**	(189)
Closing balance	**3,306**	1,224

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

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 September 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	**-**	**-**	**376**	**198**	**574**
Disposals	**-**	**-**	**-**	**(70)**	**(70)**
At 30 September 2018	**955**	**600**	**3,362**	**501**	**5,418**
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	**-**	**24**	**298**	**82**	**404**
Disposals	**-**	**-**	**-**	**(70)**	**(70)**
At 30 September 2018	**-**	**407**	**2,497**	**180**	**3,084**
Net book value					
At 30 September 2018 (Audited)	**955**	**193**	**865**	**321**	**2,334**

13 Property and equipment *(continued)*

	Freehold land Rials '000	Buildings Rials '000	Furniture, fixtures and equipment Rials '000	Motor vehicles Rials '000	Total Rials '000
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 (Audited)	955	217	333	135	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 (September 2017- Rial 0.020 million, December 2017- Rial 0.020 million).Valuation for the land and building is done on an annual basis.

14 Share capital

The authorised share capital of the Company comprises 750,000,000 ordinary shares of Baizas 100 each (2017- 300,000,000 ordinary share of Baizas 100 each). The Company's issued and fully paid-up share capital amounts to 503,964,075 ordinary shares 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:

	30 September 2018		31 December 2017	
	Number of shares held	**%**	Number of shares held	%
Al Hilal Investment Co. LLC	**195,697,266**	**38.83**	109,991,434	39.39
Oman International Development and Investment Company SAOG	**127,016,408**	**25.20**	71,389,433	25.56

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 period for payment of purchase consideration to OOLC shareholders which are mentioned at net of bond issue expenses of Rial 0.131 million.

17 Creditors and accruals

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Creditors	**5,473**	4,194
Accruals and other liabilities	**4,550**	1,174
	10,023	5,368

18 End of service benefits

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

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
1 January	**546**	620
Transfer from former OOLC	**262**	-
Provision during the period/ year (note 7)	**210**	17
Payments during the period/ year	**(340)**	(91)
Closing balance	**678**	546

19 Bank borrowings

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Bank overdraft	**2,074**	491
Short-term loans	**92,536**	46,951
Current portion of long term loans	**133,100**	52,204
Long-term loans	**70,278**	29,115
	297,988	128,761

(a) During the period, interest was charged on the above borrowings at rates ranging between 3.25% and 5.50% per annum (September 2017-3.3% and 5.5% 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 30 September 2018, the notional amount of foreign currency forward contract commitment amounted to Rial 33.7 million [USD 87.3 million] (December 2017 - Rial 11.6 M [USD 30.0 M]) to repay US Dollar term loans. The aggregate fair value of foreign currency forward contracts at 30 September 2018 is Rials 33.7 million [USD 87.3 million].

20 Fixed deposits

At 30 September 2018, the Company has accepted fixed deposits from corporate entities based in Oman for a total amount of Rial 27.8 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 3.65% and 5.10% per annum (September 2017 – 2.70% to 5.20% per annum, December 2017 – 3.20% to 5.20% per annum). The carrying amount includes interest accrued till the end of the period.

21 Proposed dividends

The Board of Directors at the forthcoming Ordinary General Meeting propose a cash dividend of 8.31% on the shares outstanding on 30 September 2018. The cash dividend is expected to amount to Rial 4.19 million. 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.

22 Cash and cash equivalents

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Bank overdrafts	**(2,074)**	(491)
Cash and bank balances – (note 10)	**8,006**	1,897
	5,932	1,406

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

22 Cash and cash equivalents *(continued)*

Change in cash flows from financing activities (Principal)

	30 September 2018 (Audited)		30 September 2017 (Un-audited)	
Particulars	**Cash flow from Bank Borrowings Rial '000**	**Cash flow from Fixed Deposits Rial '000**	Cash flow from Bank Borrowings Rial '000	Cash flow from Fixed Deposits Rial '000
Opening Balance	**128,110**	**21,064**	131,284	15,601
Balance transferred from OOLC	**149,235**	**8,250**	-	-
Additions during the period	**189,672**	**3,954**	54,894	9,189
Repayments during the period	**(171,904)**	**(6,626)**	(62,395)	(6,853)
Closing Balance	**295,113**	**26,642**	123,783	17,937
Change in cash flows	**17,768**	**(2,672)**	7,501	2,336

23 Commitments

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Approved lease commitments	**8,736**	4,461

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 by 2018.

	30 September 2018 (Audited) Rial '000	31 December 2017 (Audited) Rial '000
Bank guarantees	**816**	979

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 period ended 30 September 2018 were as follows:

	Nine months ended 30 September 2018 (Audited) Rial '000	Nine months ended 30 September 2017 (Un-Audited) Rial '000
General and administrative expenses	**2**	2
Sales incentive paid	**60**	114
Directors' fees and remuneration		
Directors' sitting fees and remuneration	**152**	149
Remuneration & period end balances to key members of management during the period		
Salaries and other benefits	**729**	601

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.

At 30 September 2018 (Audited)	**Up to 1 month Rial ’000**	**> 1 month to 1 year Rial ’000**	**> 1 year Rial ’000**	**Non-fixed maturity Rial ’000**	**Total Rial ’000**
Assets					
Cash and bank balances	**8,006**	**-**	**-**	**-**	**8,006**
Statutory deposit	**-**	**-**	**-**	**250**	**250**
Net investment in financing activities	**12,143**	**141,991**	**266,364**	**-**	**420,498**
Advances and prepayments	**-**	**2,985**	**-**	**-**	**2,985**
Deferred tax asset	**-**	**-**	**-**	**370**	**370**
Goodwill	**-**	**-**	**-**	**6,206**	**6,206**
Intangible asset	**-**	**-**	**-**	**1,600**	**1,600**
Property and equipment	**-**	**-**	**-**	**2,334**	**2,334**
Total assets	**20,149**	**144,976**	**266,364**	**10,760**	**442,249**
Equity and liabilities	**-**	**-**	**-**	**104,245**	**104,245**
Total equity					
Liabilities:					
Bank borrowings and fixed deposits	**38,462**	**212,303**	**74,997**	**-**	**325,762**
Creditors and accruals	**-**	**10,023**	**-**	**-**	**10,023**
End of service benefits	**-**	**-**	**-**	**678**	**678**
Tax liabilities	**-**	**1,201**	**-**	**340**	**1,541**
Total equity and liabilities	**38,462**	**223,527**	**74,997**	**105,263**	**442,249**
Liquidity gap	**(18,313)**	**(78,551)**	**191,367**	**(94,503)**	
Cumulative liquidity gap	**(18,313)**	**(96,864)**	**94,503**	**-**	

A 31 December 2017 (Audited)	Rials '000	Rials '000	Rials '000	Rials '000	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 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	-	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

26 Maturity analysis of assets and liabilities *(continued)*

The Company had unutilized long-term credit facilities amounting to Rial 62.3 million available as on 30 September 2018 (December 2017 – Rial 61.7 million) to mitigate the impact of negative mismatch. The Company expects, given past experience, local practice and discussions with lenders that short term borrowing facilities will be extended, renewed or replaced on expiry and fixed deposits maturing within one year will be renewed if required as well as other measures to meet the gap in maturity. Accordingly, management has prepared these financials on going concern basis.

27 Effective interest rate analysis of financial assets and financial liabilities

At 30 September 2018 (Audited) **Assets**	**0% to less than 5%** **Rial ’000**	**5% to less than 10%** **Rial ’000**	**10% to less than 15%** **Rial ’000**	**15% and above** **Rial ’000**	**Total** **Rial ’000**
Cash and bank balances	**8,006**	**-**	**-**	**-**	**8,006**
Statutory deposit	**250**	**-**	**-**	**-**	**250**
Advances	**2,985**	**-**	**-**	**-**	**2,985**
Net investment in financing activities	**286**	**242,569**	**176,836**	**807**	**420,498**
Total	**11,527**	**242,569**	**176,836**	**807**	**431,739**
Liabilities					
Bank borrowings and fixed deposits	**308,568**	**17,194**	**-**	**-**	**325,762**
Creditors and accruals	**10,023**	**-**	**-**	**-**	**10,023**
Total	**318,591**	**17,194**	**-**	**-**	**335,785**

At 31 December 2017 (Audited) Assets	0% to less than 5% Rial ’000	5% to less than 10% Rial ’000	10% to less than 15% Rial ’000	15% and above Rial ’000	Total Rial ’000
Cash and bank balances	1,897	-	-	-	1,897
Statutory deposit	250	-	-	-	250
Advances	723	-	-	-	723
Net investment in financing activities	2,628	137,738	60,268	265	200,539
Total	5,498	137,738	60,268	265	203,409
Liabilities					
Bank borrowings and fixed deposits	146,512	4,057	-	-	150,569
Creditors and accruals	5,368	-	-	-	5,368
Total	151,880	4,057	-	-	155,937

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 *(continued)*

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

Interest rate sensitivity analysis

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

30 September 2018	**Effective interest rate %**	**Up to 1 month Rial '000**	**> 1 month to 1 year Rial '000**	**> 1 year Rial '000**	**Non-fixed maturity Rial '000**	**Non-interest bearing Rial '000**	**Total Rial '000**
Assets							
Cash and bank balances		**8,006**	**-**	**-**	**-**	**-**	**8,006**
Statutory deposit	**1.5%**	**-**	**-**	**-**	**250**	**-**	**250**
Advances		**-**	**2,985**	**-**	**-**	**-**	**2,985**
Net investment in financing activities	**6.5%-17%**	**12,143**	**141,991**	**266,364**	**-**	**-**	**420,498**
Total assets		**20,149**	**144,976**	**266,364**	**250**	**-**	**431,739**
Liabilities							
Bank borrowings and fixed deposits	**3.25%-5.5%**	**38,462**	**212,303**	**74,997**	**-**	**-**	**325,762**
Creditors and accruals		**10,023**	**-**	**-**	**-**	**-**	**10,023**
Total liabilities		**48,485**	**212,303**	**74,997**	**-**	**-**	**335,785**
Interest rate sensitivity gap		**(28,336)**	**(67,327)**	**191,367**	**250**	**-**	**95,954**
Cumulative interest rate sensitivity gap		**(28,336)**	**(95,663)**	**95,704**	**95,954**	**95,954**	

31 December 2017	Effective interest rate %	Up to 1 month Rial '000	> 1 month to 1 year Rial '000	> 1 year Rial '000	Non-fixed maturity Rial '000	Non-interest bearing Rial '000	Total Rial '000
Assets							
Cash and bank balances	-	1,897	-	-	-	-	1,897
Statutory deposit	1%	-	-	-	250	-	250
Advances		723	-	-	-	-	723
Net investment in financing activities	6.5% - 17%	6,018	86,867	107,654	-	-	200,539
Total assets		8,638	86,867	107,654	250	-	203,409
Liabilities							
Bank borrowings and fixed deposits	3.3%-5.25%	13,914	98,259	38,396	-	-	150,569
Creditors and accruals		-	-	-	-	5,368	5,368
Total liabilities		13,914	98,259	38,396	-	5,368	155,937
Interest rate sensitivity gap		(5,276)	(11,392)	69,258	250	(5,368)	47,472
Cumulative interest rate sensitivity gap		(5,276)	(16,668)	52,590	52,840	47,472	