الوطنية للتمويل
National Finance

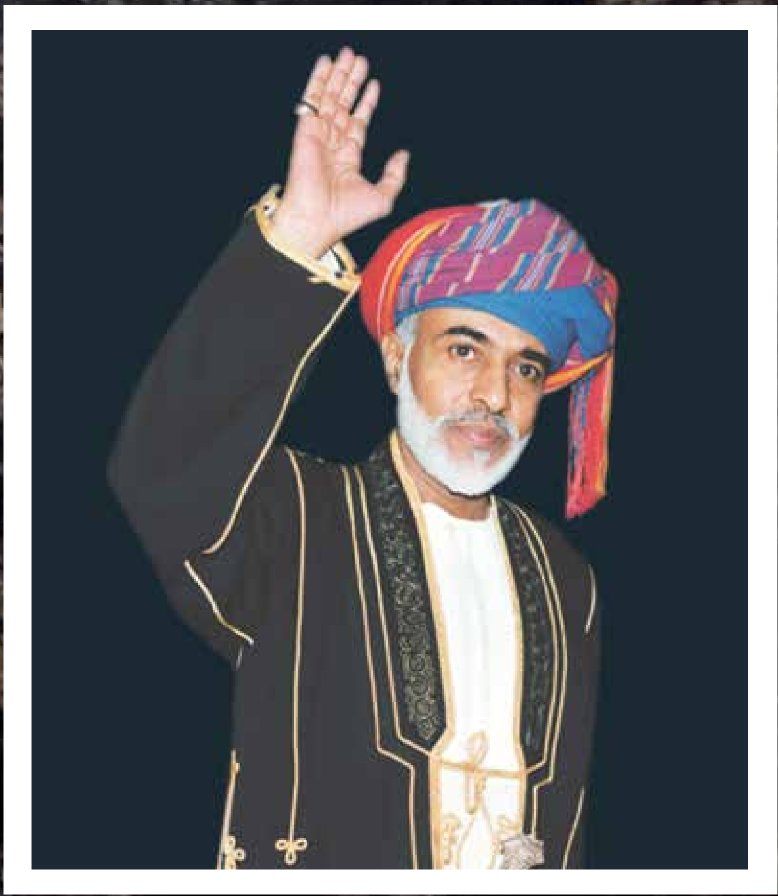
ANNUAL REPORT 2019

In the **right direction**

Partners in Progress شركاء من أجل التقدم

الوطنية للتمويل
National Finance

ANNUAL REPORT 2019



“Oman has a deep-rooted history and firm principles established ages ago and, praise be to God, what we have done is to confirm these principles and express them in modern day language”

His Majesty Sultan Qaboos bin Said

“Throughout our country’s glorious history, the world has known Oman as an influential cultural entity, which promoted the region’s growth and prosperity, and security and peace. Generations were keen on taking turns in upholding its banner so that Oman’s message of peace would continue to roam the world, carrying a great heritage and noble goals, building and not demolishing, rapproaching and not distancing. We are committed to sustain this approach, with you and by you, so that we could together perform, with firm will, our cultural role and historic mission”

His Majesty Sultan Haitham bin Tariq

In the right direction

For the past 33 years, we have been creating opportunities to enrich the lives of our customers, enabling businesses to thrive and economy to prosper.

Through a resolute focus on our strategy we continue in the right direction.

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Board of Directors

Taya Jandal Ali
Chairman

Board of Directors

Hani Al Zubair
Deputy Chairman (1)

Pramod G. Karajgikar
Director (2)

K. Balaji
Director (1)

AbdulAziz Al Balushi
Director (1) (3)

(1) Member of the Nomination, Remuneration and Executive Committee
(2) Member of the Audit Committee
(3) Member of the Risk Committee

K. Palanivelu
Director (3)

Badar Al Shanfari
Director (2)

Sanjay Kawatra
Director (3)

Asim Al Ghailani
Director (2)

Directors' Report

On behalf of the Board of Directors and employees of the company, we convey our heartfelt condolences to the people of Oman on the passing of our great leader, His Majesty Sultan Qaboos bin Said. We pray to the Almighty to give him eternal peace.

We extend our sincere congratulations and greetings to His Majesty Sultan Haitham bin Tariq, and wish him all success in leading Oman on the path of development, peace and prosperity and we continue to stand committed to our efforts and hardwork to be a partner in progress of our beloved nation under his wise leadership. We pray to the Almighty for his good health and long life.

On behalf of the Board of Directors, we take pleasure in placing before you the results of the Company for the year ended December 31, 2019.

Your company continued to be the leading finance company in Oman. It is poised to further consolidate its leading position and continue to offer optimum customer experience.

The FY 2020 Oman budget represents the final year of the Ninth Five-Year Development Plan (2016-2020) and paves the way for the Tenth Five-Year Development Plan (2021-2025) which underpin the Oman Vision 2040 development objectives.

The Government of Oman has budgeted a GDP growth of over 3% in year 2020 keeping in mind its objectives of fiscal sustainability, diversification of the economy, participation of private sector in development projects and creating more job opportunities.

The continued focus on the need to enhance the contribution of non-oil revenue and the Government acknowledgement that revenues from non-oil sectors depend significantly on private sector investment commitment to improving the business environment to facilitate this augurs well for growth in capital investment.

Our Company has a well-diversified geographical presence across Oman (20 locations), coupled with a diversified product profile and we are 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.

Your Company continues to adopt a conservative approach to credit approvals keeping in view the overall macroeconomic scenario and perceived increase in credit risk. 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.

Our Total equity of RO 108 million is the highest among FLCs and gives us a strong base on which to build our business. Your company remains the largest finance and leasing Company in the Sultanate in terms of asset size, branch network, revenues and profit.

During the year 2019, the company focused on writing good quality business with improved margins and building an overall cost optimization culture within the organization. As a result, our operating profit (profit before provision and tax) grew 11% to reach RO 17.7 million (RO 15.9 million in 2018) while total earning assets grew 1.7% to reach RO 426 million (RO 419 million in 2018). Profit after tax was RO 10 million as compared to RO 12 million in 2018. The decline from 2018 Profit of RO 12 million was primarily due to pragmatic increased provisioning.

Your company is in full compliance with the provisioning norms prescribed by the Central bank of Oman and the International Financial Reporting Standards. As a measure to support future growth, the Board of Directors have created an additional Voluntary Reserve of RO 3 million out of the distributable reserves of the company.

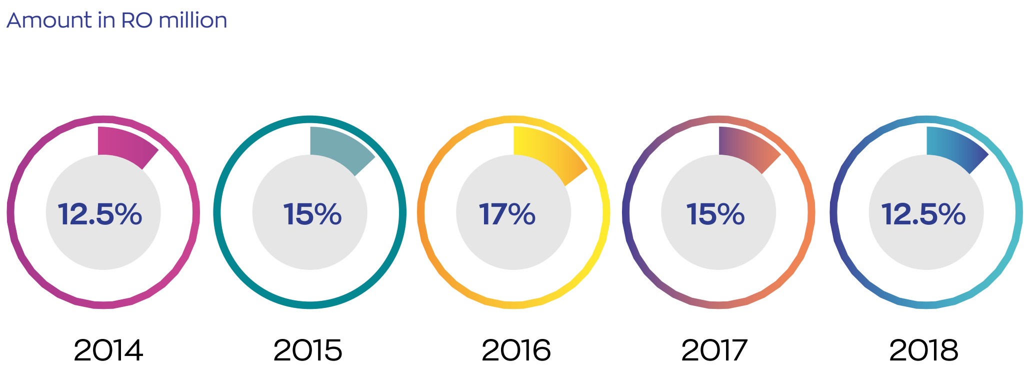
With digital platforms continuing to play a pivotal role in reaching out to customers, we are constantly developing new channels to connect with the customers and enhance their engagement. Our mobile application has been rolled out which will enable better customer experience. We will continue to strive to enhance our technological platform to be aligned with the digital transformation happening across the world and open new doors of customers connection as well as operational efficiencies.

The projected lower levels of credit offtake combined with increased interest costs will make it challenging to sustain current profitability levels. However, your Company is well positioned to deal with the challenging business environment as a result of its strong financial position, well established processes, well trained personnel and long experience in this business. We will continue to focus on strengthening our efficiencies, customer experience, product offerings and quality of service delivery.

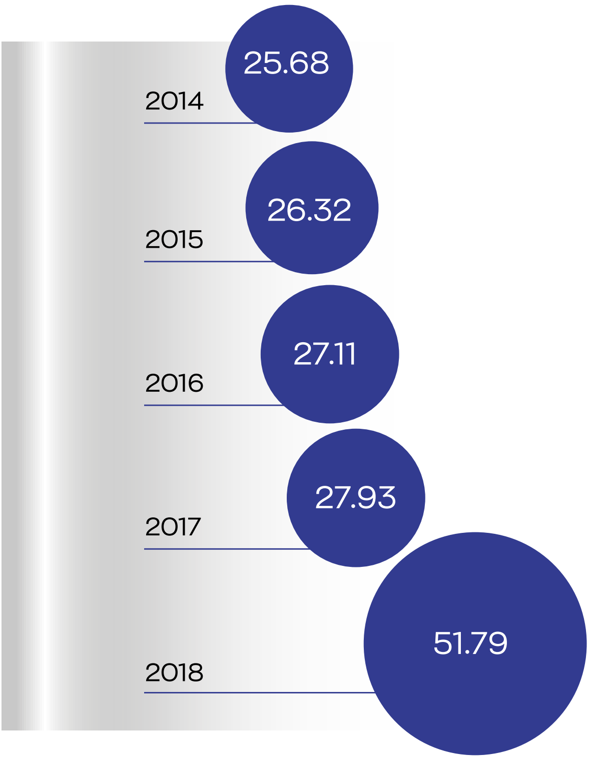
The Company's dividend distribution aims at providing shareholders a reasonable return and to build reserves to achieve a strong capital base. Based on this, the Board recommends distribution of 11.08% dividend in cash. This dividend will be paid on the shares outstanding on the record date.

The particulars of dividend distributed in the past 5 years is given below:

Total Dividend
(Cash plus Stock)



Capital on which dividend paid



Your Company has been complying with all the requirements of the code of corporate governance, as specified by the Capital Market Authority (CMA). A detailed report on corporate governance is set out along with a certificate from the Statutory Auditors in compliance with CMA regulations.

During the year, the company had donated a total amount of RO 95,160, of which RO 25,000 each to Dar Al Atta and Oman Charitable Organization, RO 15,000 to Oman Cancer Association for Walkathon Sponsorship and Rials 10,000 to Oman Bahjah Orphan Society out of the amount approved by the shareholders for distribution to charities.

During the current year, the company has entered into a co-operation agreement with Fund for Development of Youth Projects (Sharakah) for conducting workshops in Financial Planning for the SME segment across Oman aiming at improving skill levels of existing and prospective SME enterpreneurs for RO 20,160. Sharakah provides financial Support and Post-financial Support to SMEs. The Company will continue to explore avenues to assist the development of the SME sector.

During the year 2019, the company has considerably strengthened its Executive Management with the recruitment of 2 Omani General Managers. Mr. Ali Al Mani, General Manager – Business, is responsible for the Corporate, SME and Retail Sales, the branch network and the company's marketing efforts. Mr. Juma Al Khamisi, General Manager – Support, heads the Finance, Operations and Support functions.

Your company remains committed to Omanisation and as on December 31, 2019, the number of Omani staff was 264 out of the total staff strength of 311. The Omanisation percentage works out to 85%, which is more than the prescribed target of 80%. Your Company continues to remain committed to providing career opportunities and training to Omani staff to prepare them to assume higher responsibilities.

We also extend our sincere gratitude to the Central Bank of Oman, Capital Market Authority, Muscat Securities Market, our bankers, depositors, vehicle and equipment dealers, customers and shareholders for the support extended for the growth of the Company. On behalf of the Board of Directors, we also thank the management and staff for their dedication and hard work.

Taya Jandal Ali
Chairman

AbdulAziz Al Balushi
Director

Robert Pancras
Chief Executive Officer

Management Discussion & Analysis Report

Statement of Business Objectives

Robert Pancras
Chief Executive Officer

National Finance Co was established in 1987. The company is present in 20 locations across Oman, with more than 310 employees serving 70,000 customers.

Our strong performance is a testament to our people, our adherence to a strong and clear strategy, and our philosophy of Partnering in Progress. This motivates us to explore new and exciting opportunities, from which all our stakeholders may benefit, both now and in the future.

Our aspiration is to remain the leading finance company in Oman by a long-term strategy that will positively contribute on the company's growth by offering quality products and services that benefit corporate and retail customers alike. We will also continue to support and partner the burgeoning SME sector in the Sultanate which will eventually complement strengthening of the country's economic outlook.

The following discussion and analysis, in the opinion of the management, is useful in understanding the Company's financial results and position. The discussion and analysis have been made keeping the going concern concept in mind and need to be read together with the financial statements and related notes forming part of the annual report.

Certain statements in these discussions are forward-looking statements, including those that discuss strategies, goals, outlook or other non-historical matters; or projected revenues, income, returns or other financial measures. These forward-looking statements speak only as of the date on which they are made. The forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements. Interest rate changes, demand and supply in the products financed, changes in Government regulations, tax laws etc., may have an influence on the financial results of the Company

Economic Environment Overview

Industry Overview
The Leasing and Finance sector showed slack growth during 2019 on account of marked increase in cost of funds and a general slowdown in both the Government and private sectors. We have witnessed a slowdown in credit offtake due to dearth of new projects in major segments viz. oil & gas, infrastructure, construction etc.

Business Structure
Your company is the leading non-banking finance company in Oman with the largest asset base and profits, most number of customers and the best geographical coverage.

The company enjoys a robust sourcing, underwriting, receivables collection and operational model commensurate with the size and risks of the respective underlying asset class. Your company's major strengths are its customer base, dealer relationships, strong business practices and experienced and committed work force. In addition, we also have a seamlessly integrated operating platform which is equipped to launch our business to new heights and effortless integrate with new business channels. As one of the oldest players in the industry your Company has a mature understanding of the market and has developed systems and processes that are constantly updated to meet the market demands and to face the challenges posed by the changing business environment.

The key strategies to enhancing the profitability in our business depend on the Company's ability:

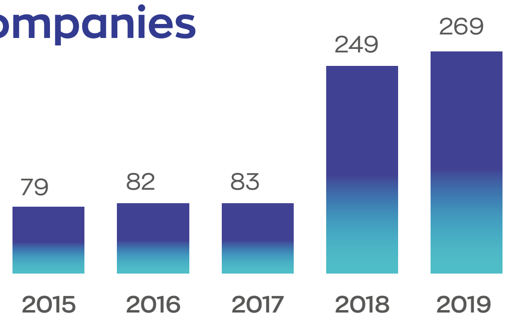
a. To lend money at spreads sufficient to maintain appropriate return for the risk undertaken
b. To maintain efficient operating platforms and infrastructure in order to run the business at competitive cost levels
c. To originate quality new business at optimal cost through multiple customer acquisition channels
d. To minimize the credit losses by proper evaluation of the credit worthiness of the customers, both during approval stage and post-disbursal collections
e. To maintain a strong capital base and to leverage the business at the optimal level.

Performance Highlights

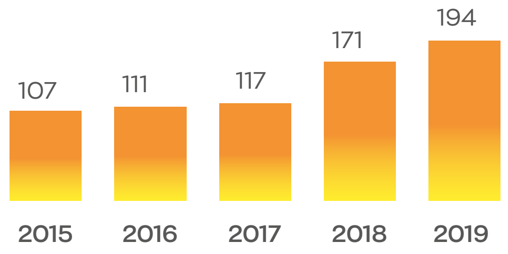
Vehicle & Equipment Finance
In vehicle finance, the company operates through established dealer as well as direct customer relationships while in the SME market the business is more focused on direct marketing.. We have sustained the focus on credit quality through use of advanced analytics tools in credit scorecards, stronger collateralisation and better selection of clients through improved analytical decision-making. We are already seeing encouraging results of this approach through better credit quality compared to other market players in the current challenging economic cycle. We are also strongly committed to helping SMEs across Oman, offering the same rich level of service and support alongside flexible and innovative products to help them prosper.

Net Investment in Lease Finance (RO Million)

Companies



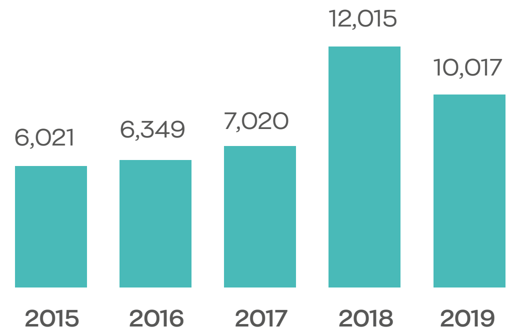
Individual



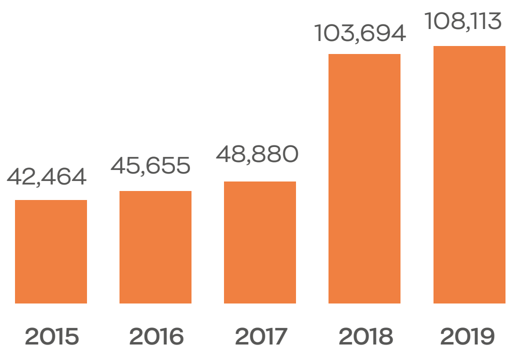
Operational Performance

The company now has assets of OMR 426.6 million (up 1.67% on last year) with profitability of OMR 10.2 million in 2019.

Net Profit
(Rial '000)



Shareholder's Funds
(Rial '000)



- Overall summary of performance for the year is as follows:
- Income from financing activities amounted to Rials 41.81 million.
- Interest cost amounted to Rials 16.30 million in 2019.
- Operating income amounted to Rials 17.65 million.
- General and administrative expenses amounted to Rials 10.68 million.
- Profit after tax for the current year amounted to Rials 10.02 million.

Funding Profile

As a result of the increase in business, our gearing is at a level of 3.20 times as compared to our regulatory cap of 5 times. Our external funding comprises two main sources, bank borrowings and corporate deposits.

a) Bank Borrowings

Bank borrowings comprise our main source of funding. Since all our bank funding is from relationship banks with whom we have (and continue to cultivate) long term relationships, banks constitute a substantial source of stable funding for us. The company's total bank borrowings as at 31st December 2019 amounted to Rials 320.02 million.

b) Fixed Deposits

Fixed deposits are an alternate source of funding for FLCs. Fixed deposits carry the advantage of being fixed rate for the term; consequently, interest rate risk can be successfully mitigated to an extent. Our deposits tend to be from both stable relationship based depositors as well as more opportunistic one time depositors. As at 31 December 2019, the Company carried corporate fixed deposits totaling to Rials 17.0 million. The growth in deposits was supported by the continued focus on diversifying our funding base, where we continued to attract new depositors.

Human Resources

Our employees are paramount to our business success. By fostering a high-performance culture, investing in ongoing training and development, and by encouraging loyalty and respect, we empower and reward our employees.

National Finance firmly believes that its competitive edge is derived from its people. As a financial services company which takes pride in knowing and serving its customers better than most, people remain the Company's most valuable asset. The past success was built on the soundness of the Company's strategy, which by the quality and determination of the employees has been turned into action. Going forward, the Company not only plans to maintain this key source of competitive advantage but also build on it through well-structured training initiatives.

With a rapidly changing business environment comes a need to constantly upgrade existing skill sets to face new challenges. During the year the Company conducted structured training programs in Fintech, spoken English, risk assessment, leadership, motivation, customer service, anti-money laundering etc.

Preparing our Omani employees for the changing environment is a strategic imperative which is followed closely within the company. The Company is well equipped in terms of processes to continue to meet the upcoming requirements of growth. As of 31 December 2019, there were 311 employees of the Company of whom 264 employees were Omani nationals. The Omanisation ratio was at 84.89% which is higher than the statutory target of 80%.

Information Technology

Over the last several years, we have been focusing on introducing latest technology to improve proximity and customer experience. Introduction of mobile platforms have also delivered greater agility, improving communication and interaction with our customers. We have also introduced a new remote service, enabling customers to remotely apply for their desired products. This gives us the opportunity to refocus the function of our branch network so that they can act as a sales and advisory channel, complemented by value-adding activities for customers with less straightforward needs.

In 2020, we will continue to enhance our services, building partnerships with third parties to develop our IT systems to achieve global standards of delivery.

The company has a well developed and tested Disaster Recovery infrastructure which involves maintenance of operations in the event of loss of the main production system. The company has also put in place Business Continuity Plans as required by best practice for financial institutions.

Risks and Concerns

Managing risk is an inherent part of the Company's business. The Company's goal in risk management is to understand, measure and monitor the various risks that arise, and to evolve up to date policies and procedures to mitigate and manage these risks. The Company is primarily exposed to credit risk, interest rate risk, liquidity risk and operational risks.

The two key pillars of risk management for the company lie in:

- Adoption of standardized operating procedures;
- Review and audits to evaluate the extent of compliance as well as to spot any gaps.

Credit Risk

As the Company's core business is lease financing, credit risk forms the major risk to which the company is exposed. Credit risk is the risk that a counterparty will cause financial loss for the company by failing to discharge an obligation and the management, therefore, carefully manages its exposures to credit risk. 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.

The Company reviews and monitors credit exposures on an ongoing basis to identify the early warning signals and take appropriate corrective action.

Operational Risk

Operational Risk is defined as the risk that the company will incur due to inadequate or failed internal processes, people or systems.

The management of operational risk is carried out through a comprehensive system of internal controls, documented delegation of authority, separation of duties between key functions and detailed standard operating procedures. The key operational processes are centralized at head office that reduces the operational risk at the branch level. The company has an empowered in house internal auditor. The company also adopts a whistle blower policy. The company periodically reviews the information security policy and aligns the systems to the revised policy guidelines.

Market Risk

Market risk is the risk of loss arising from changes in values of financial assets and liabilities and includes interest rate risk, foreign exchange risk and liquidity risk.

The Company engages in financial transactions in the normal course of business that exposes the Company to these market risks. The management conducts appropriate management practices and maintains policies designed to effectively mitigate such risks. The objectives of the market risk management efforts are to preserve the economic and accounting returns of the assets by matching the re-pricing and maturity profiles of the assets with that of the liabilities.

Interest Rate Risk

Interest rate risk arises from the possibility of changes in interest rates and mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. Except for pricing the leases of varying maturity appropriately, the company does not actively hedge against interest rate risk.

Liquidity Risk

Liquidity risk is the risk that an enterprise will encounter in raising funds to meet its obligations at any given time.

The mitigation techniques deployed by the company is to spread the borrowing basket among different banks to reduce the concentration risk. It also monitors the structural liquidity mismatches between the assets and the liabilities on a projected cash flow basis and periodically reviews the open credit lines available with the banks. The liquidity risk is reviewed on a monthly basis by the ALCO.

Foreign Currency Risk

Foreign currency risk is the risk that arises from assets or liabilities denominated in a currency that is not the entity's functional currency. The majority of the company's transactions are denominated in the local currency. Foreign currency transactions of the company are restricted to US Dollar denominated borrowings. Since the Rial is pegged to the US Dollar, foreign exchange risk is considered low. The Company reduces its foreign currency risk by booking forward cover as decided by the ALCO.

Internal Control Systems

The company has put in place extensive internal controls to mitigate risks. An established set of procedures provides clear delegation of authorities and standard operating procedures for all parts of the business. Clear segregation of duties exists between various functions. The in-house internal auditor evaluates the adequacy and effectiveness of controls and all audit findings are independently reported to the Audit Committee of the Board of Directors. The Risk Committee monitors the implementation of enterprise-wide risk management and control. The company has a strong IT security system to ensure information security.

Future Outlook

Actual revenues of Oman for 2019 increased by 10%, reaching OMR 11.1 billion, compared to the budgeted revenue of OMR 10.1 billion. For 2020 budgeted revenues of Oman is at OMR 10.7 billion against the 2019 budgeted revenues of RO 10.1 billion. The budgeted 2020 deficit is estimated at OMR 2.5 billion compared to estimated actual deficit of OMR 2.8 billion in 2019. This deficit is expected to be mainly financed through international borrowing and the balance through a mix of domestic borrowing and from reserves.

We expect the outlook for the finance and leasing industry to remain challenging. We expect some further tightening of liquidity leading to compression in spreads due to increase in funding costs and increased competition for business.

In 2020, innovation will remain a key focus for us. As customer demand and changing technology drive the future of finance, we are developing new services and digital architecture to ensure that National Finance remains at the forefront of this evolution.

Your Company will continue to strive hard to improve its service levels, the main differentiator in service oriented industries, and will continue in its pursuit to develop strategies for maintaining margins through efficient operations. This combined with improved asset quality and focus on maintaining good collections is expected to provide satisfactory returns to our shareholders.

Robert Pancras
Chief Executive Officer

Report of Factual Finding to the Shareholders

REPORT OF FACTUAL FINDINGS TO THE SHAREHOLDERS OF NATIONAL FINANCE COMPANY SAOG

1. We have performed the procedures listed below and agreed with you pursuant to the Capital Market Authority (CMA) circular number E/4/2015, dated 22 July 2015, with respect to the Board of Directors' Corporate Governance Report of National Finance Company SAOG ("the Company") as at, and for the year ended 31 December 2019 and application of the corporate governance practices in accordance with amendments to the CMA Code of Corporate Governance issued under circular number E/10/2016 dated 1 December 2016 (collectively the 'Code').

2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400, *Engagements to perform agreed-upon procedures regarding financial information*. The procedures were performed solely to assist the Board of Directors of the Company in complying with the requirements of the Code.

3. We performed the following procedures:

   (a) We obtained the Corporate Governance Report ("the Report") issued by the Board of Directors and checked that it includes, as a minimum, all items suggested by the CMA to be covered by such reports as detailed in Annexure 3 of the Code, by comparing the Report with the suggested content in Annexure 3; and

   (b) We obtained the detailed list of areas of non-compliance with the Code identified by the Company's Board of Directors, included in the Report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes and/or a checklist prepared by the Board of Directors identifying such areas of non-compliance.

4. After performing the above procedures, we have no exceptions to report.

5. Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying Corporate Governance Report.

6. Had we performed additional procedures or had we performed an audit in accordance with International Standards on Auditing or a review in accordance with International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

7. Our report is solely for the purpose set forth in the second paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' Corporate Governance Report included in the Company's Annual Report for the year ended 31 December 2019 and does not extend to any other areas of the Annual Report or to the financial statements of the Company taken as a whole.

PricewaterhouseCoopers

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C.R. No 1230865
PricewaterhouseCoopers LLC

12 March 2020
Muscat, Sultanate of Oman

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

Corporate Governance Report

CORPORATE PHILOSOPHY

The Corporate Governance philosophy of the Company aims at corporate fairness, transparency and accountability at all levels through well laid down systems and procedures. The Board of National Finance Co. SAOG firmly believes that the adopted Corporate Governance policies are aligned with the principles laid in the Code of Corporate Governance and the provisions of the Executive Regulation of the Capital Market Law dealing with disclosures to be made by issuers of securities and insider trading.

THE BOARD

Role and Function

The Board of Directors play a central role within the business organization in developing the Company's strategic and organizational objectives as well as in ensuring the effectiveness of the internal controls.

Composition of the Board

The Articles of Association of the Company stipulate that the Board should consist of nine directors. The company currently is managed by a Board of Directors consisting of 9 members elected by the General Meeting from amongst the shareholders and non-shareholders. The members were last elected to the Board at the Annual General Meeting held on March 29, 2017 with three years tenor.

All the members have the requisite knowledge, varied background and rich experience in the field of financial services. All directors, including the Chairman, are non-executive. Out of the nine Directors, seven are independent and two are non-independent as per the regulation. Five directors are nominee directors representing institutional investors and four directors are elected in their individual capacities. None of the directors is a member of the Board of more than four public joint stock companies whose principal place of business is in the Sultanate of Oman, nor is a Chairman of more than two such companies.

The roles of the Chairman are distinct and separate from that of the Chief Executive Officer. The Secretary to the Board is Mr. R. Panneerselvam.

Executive Management

The Chief Executive Officer (CEO) is responsible for the management of the Company. CEO is assisted by the General Manager – Business, General Manager – Risk and Controls and General Manager - Support, all four are part of the Management Committee of the Company. All the General Managers reports to the CEO. The General Manager - Business is responsible for the Corporate, SME and Retail Sales, the branch network and the company's marketing efforts, General Manager – Risk and Controls is responsible for Collection, Risk and Compliance and General Manager – Support is responsible for Finance, Operations and Support functions.

Board Meetings

During the year 2019, five board meetings were held as listed below:

Meeting No.	Board Meeting Dates
1/2019	January 30, 2019
2/2019	April 25, 2019
3/2019	July 29, 2019
4/2019	October 29, 2019
5/2019	December 11, 2019

The maximum interval between any two meetings was 95 days which is within the stipulated maximum of 120 days as per the Code of Corporate Governance. The quorum for the meeting of the Board of Directors is a minimum of two third of its members present or represented. Details of the members, the institutions they represent and the membership in the board of other SAOG companies are disclosed in Table 1.

Brief profile of directors

Mr. Taya Jandal Ali, a diploma graduate of the Faculty of Extra Mural Studies, Cambridge University, has been the Chairman of the Board since 1992 and was the Chairman of the Nomination, Remuneration and Executive Committee until October 2018. He is also a Director in Oman International Development and Investment Company SAOG (OMINVEST).

Prior to this, Mr. Taya Jandal served the Government as the Under Secretary to the Advisor of His Majesty The Sultan for Economic Planning Affairs.

Mr. Hani Muhammad Al Zubair has been the Deputy Chairman since 1997. A graduate of Richmond University, UK with Bachelors Degrees in Mathematical Science and Computer Science, he is a Director of The Zubair Corporation LLC, one of the leading private sector groups in the Sultanate of Oman with diverse business interests. He has extensive knowledge and experience in financial, investment and business management areas. He also holds the position of Chairman in the Fund for Development of Youth Projects SAOC and the position of a Director on the Board of Oman Arab Bank SAOC.

Mr. Pramod G. Karajgikar has been a Director since 2002 and member of the Audit Committee since 2003. Since 2013, he is also the Chairman of the Audit Committee. He is a Chartered Accountant (from the Institute of Chartered Accountants of India), Cost Accountant (from the Institute of Cost and Works Accountants of India) and Company Secretary (from the Institute of Company Secretaries of India).

He has experience of more than 35 years in the field of Finance and Management. He has been in Oman since February 1985 in the field of Finance with Waleed Associates LLC (an Omar Zawawi Est. Group Company). He also holds the position of Director in Muscat Insurance Co. SAOG.

Mr. K. Balaji has been a Director since 5th January 2013 and Member of the Nomination, Remuneration and Executive Committee. He represents Al Hilal Investments Co. LLC on the Board of National Finance. He had earlier represented Al Hilal Investments on the Board of National Finance from November 2002 to May 2009.

He is a Chartered Accountant and a Fellow Member of The Institute of Chartered Accountants of India.

He has experience of 29 years in the field of Finance and Management. He is currently working as General Manager - Group Finance in Zubair Automotive Group and has been associated with this organization for about 23 years.

Mr. AbdulAziz Mohammed Al Balushi has been a Director since March 2014. He is a Group CEO of Oman International Development and Investment Company SAOG (OMINVEST). With experience of more than 34 years, AbdulAziz has extensive in-depth knowledge of global financial services industry. At OMINVEST, AbdulAziz has transformed the Company by implementing the new Vision, formulating a new organizational culture, structure and policies.

He has been the key driver behind the merger of OMINVEST and ONIC Holding, which created the largest publicly listed investment company in Oman. He was also responsible for several key initiatives at OMINVEST such as the IPO of its flagship insurance company National Life, the development of its iconic headquarters OMINVEST Business Centre, merger of National Finance and Orix Leasing Company, and Capital Raising initiatives such as the issuance of perpetual bond for OMINVEST.

Prior to joining OMINVEST, AbdulAziz was the CEO of Ahlibank SAOG from 2007 to 2013 and was primarily responsible in converting a single product mortgage bank into a full-fledged commercial bank with assets of over US$ 3 billion and equity of over US$ 450 million. In November 2012, Abdulaziz Al Balushi was ranked “Second Best CEO in the Arab Banking World” by Forbes Middle East.

AbdulAziz holds Master of Science Degree in Finance from the University of Strathclyde (UK) and a Fellow of Chartered Institute of Bankers (UK). AbdulAziz served in various Boards of companies across the Sultanate and as Advisory Board Member in the college of Agricultural and Marine Services at Sultan Qaboos University.

Currently, AbdulAziz is the Chairman of Board of Directors at Oman Electricity Transmission Company SAOC (a wholly government-owned entity), Oman Real Estate Investments and Services SAOC and Ubhar Capital SAOC; Deputy Chairman of National Life and General Insurance Company SAOG, Jabreen Capital and Salalah Resorts SAOC. He is also a Board member at Oman Arab Bank SAOC. Additionally, he is a member of Oman American Business Center, an organization formed to foster the development of commercial activity between the United States of America and the Sultanate of Oman.

He is also a Fellow of the Institute of Financial Services, an organisation supporting professionalism in financial services.

Mr. K. Palanivelu has been appointed as Director since June 2016.

Mr. K. Palanivelu is a Graduate and a Member of the Institute of Chartered Accountants of India. Mr. Palanivelu has an overall experience of 30 years in the field of finance and banking. Prior to joining the Zubair Group he was employed with a large conglomerate of petrochemicals, pharmaceuticals and shipping in India for about 15 years. He has held various positions with that group in India and Jordan.

Mr. Palanivelu joined the Zubair Group in 2004 as Manager – Group Treasury and was promoted to Head of the Group Treasury before being elevated to the position of Chief Financial Officer of The Zubair Corporation Group. He has handled large finance transactions for the Group and is well connected in the banking circles of Middle East and India.

Mr. Badar Awadh Al Shanfari has been appointed as Director since October 2018.

Badar Al Shanfari is the Deputy Chief Executive Officer of Jabreen Capital, which is one of the leading investment firms in Oman and a subsidiary of OMINVEST Group (Oman International Development and Investment Company SAOG) one of the longest established investment companies in the Gulf region and one of the first to be listed both in Oman and the region. It has built its success on the solid foundations of consistent performance from its portfolio of investments within and outside the Sultanate over the 30 years of its existence.

Prior to joining Jabreen Capital, Badar was the General Director of Uzbek-Oman Investment Company and UzOman Capital, which is a joint venture between Oman’s Sovereign Wealth Fund (SGRF) and Uzbekistan’s Fund for Reconstruction & Development investing that has become the leading Private Equity investor.

He is currently a Director in the board of Uzbek-Oman Investment Company, Takaful Oman

Insurance SAOG, National Finance Company SAOG and Aron Investment Limited (GCC Education Investment Platform). He was previously the Deputy Chairman of Prime Ceramics, a Director in Uzbek Leasing and a Director in Gulf Investment Services Holding Co.

Badar is a Certified Public Accountant from the state of Delaware and has a Master's in Business Administration Degree from University of Strathclyde (UK).

Mr. Sanjay Kawatra has been appointed as Director in May 2019 and member of the Risk Committee since July 2019.

Mr. Kawatra has 20 plus years of experience in providing financial, strategic, growth and operating leadership. He is well connected globally and possesses deep sector knowledge of banking, leasing and insurance with focus on Oman. Mr. Kawatra currently serves as Chief Operating Officer of Ominvest Group. Earlier he was a partner in EY MENA and has led EY's assurance practice in Qatar and Oman. He has extensive experience in matters relating to assurance, IPOs, mergers and acquisitions, restructuring, divestments, corporate governance, performance improvement, valuation and cross border fund raising transactions. He is a Bachelor of Commerce and a Member of the Institute of Chartered Accountants of India.

Mr. Asim Al Ghailani has been appointed as Director and member of the Audit Committee in July 2019. He represents Al Thurya For Investments LLC on the Board of National Finance.

Mr. Al Ghailani is the Managing Director of Salim International Investment Holding Co. LLC. He holds an M.Sc. in Investment Management from Bangor University, UK and a Bachelor degree in Finance from Gulf College. Mr. Al Ghailani has an experience of over 17 years in strategic planning and managing investment portfolios across asset classes including Real Estate. Mr. Al Ghailani has also served as a non-executive Director and as a member of Audit Committees and Risk Committees of listed companies as well as LLC companies in Oman and GCC.

Brief profile of senior management

Mr. Robert Pancras, Chief Executive Officer joined the Company in November 2018. Mr. Pancras was the Chief Executive Officer of National Finance from May 2005 to April 2018. Mr. Pancras has over 29 years of experience in banking and financial services, including more than 18 years experience in the area of Asset Finance in India, Australia and Oman. Mr. Pancras holds a Masters in Business Administration (PGDM) from Indian Institute of Management, Bangalore and a Bachelor of Engineering degree from College of Engineering, Madras.

Mr. Ali Saif Al Mani, General Manager - Business joined the company in November 2019.

Mr. Ali has over 18 years of work experience in Banking industry (Conventional and Islamic) with expertise across areas of Business, E-Banking, Operations and Project Management. He had worked in different capacities with National Bank of Oman and Bank Nizwa. His last position was held with QNB Group as Head of Retail Banking.

Mr. Bikram Singh Monga, General Manager – Risk and Controls, joined the Company in December 2018. He has over 20 years of extensive local and international experience in financial services industry. His experience includes working with leading institutions across GCC, Western & Eastern Europe and Central Asia, where he has accumulated an extensive understanding of various markets and advised businesses in multicultural environments.

Prior to Joining National Finance, Bikram was the Chief Risk Officer of OMINVEST since June 2014. Bikram holds a BSc (with honors) in Mechanical Engineering from Moscow and an MBA from University of Alberta, Canada. Bikram graduated from Harvard Business School through its Senior Executive Leadership Program.

Mr. Juma Abdullah Al Khamisi, General Manager – Support joined the company in February 2019.

Mr. Al Khamisi has over 20 years of work experience, of which 15 years were at senior level positions in the Ministry of Defence and 5 years as Head of Finance at the Ministry of Defence Pension Fund. He holds a Master of Science in Accounting degree from Barry University, USA-Florida and CPA (Certified Public Accountant) from USA.

BOARD SUB-COMMITTEES
Nomination, Remuneration and Executive Committee

The Nomination, Remuneration and Executive Committee comprises of 3 Directors and is currently headed by the Company's Deputy Chairman Mr. Hani Al Zubair. The other members of the Nomination, Remuneration and Executive Committee are Mr. K. Balaji and Mr. AbdulAziz Al Balushi.

The Nomination, Remuneration and Executive Committee is responsible for recommending new Directors for approval by the Shareholders, identification and remuneration of the key management, approval of banking facilities and credit facilities within the authority levels delegated by the Board of Directors. The Nomination, Remuneration and Executive Committee also reviews and recommends to the Board of Directors the annual budget of the Company and strategic plans and monitors the ongoing performance of the Company. During the year 2019, the Nomination, Remuneration and Executive Committee met three times and considered matters requiring urgent decision by circulation. The quorum for the committee is at least two members.

Audit Committee
The Audit Committee comprises of 3 Directors, all being non-executive directors nominated by the Board. The Committee has been reconstituted by the Board of Directors during the year 2019. Currently, the Committee is headed by Mr. Pramod G. Karajgikar. The other members of this Committee are Mr. Badar Al Shanfari and Mr. Asim Al Ghailani. The Committee assists the Board in fulfilling its oversight responsibilities. The Committee reviews the financial reporting process, the system of internal control, management of overall risks, company's process for monitoring compliance with laws and regulations, adhering to its own Manual of Authority and Procedures and co-ordinates the audit process.

During the year 2019, the Committee met six times, viz. on 27th January, 6th March, 23rd April, 28th July, 6th October and 24th October. Attendance of the Members during these meetings is shown in Table 1. The discussions held in the meetings of the Audit Committee are minuted and reviewed by the Board of Directors. The quorum for the committee is at least two members.

Risk Committee
The Risk Committee comprises of 3 Directors, all being non-executive directors nominated by the Board. The Committee has been reconstituted by the Board of Directors during the year 2019. Currently, the Committee is headed by Mr. AbdulAziz Al Balushi. The other members of this Committee are Mr. K. Palanivelu and Mr. Sanjay Kawatra.

The Risk Committee reviews the management of overall risks and company's process for monitoring compliance with laws and regulations. During the year 2019, the Risk Committee met five times.

INTERNAL CONTROL
The internal control system encompassing the entire gamut of the financial, operational and risk management functions of the Company are periodically reviewed by the Audit Committee, Risk Committee and the Nomination, Remuneration and Executive Committee set up by the Board of Directors.

The Company has set up an in-house internal audit department as per the regulatory requirements of the CMA. The functions of the internal audit department are overseen by the Audit Committee. The internal audit reports are reviewed by the Audit Committee and the findings are placed before the Board of Directors. The Company has adequate and effective internal controls in place, which are regularly reviewed and modified as and when the business processes undergo a change.

During the year 2019, all the significant activities of the company were reviewed by internal audit. The management has initiated appropriate action on the recommendations of the internal audit department.

Related Party Disclosure
Details of all commercial and financial transactions where Directors have potential interest are provided to the Board at quarterly intervals. All related party transactions have been effected on arms length basis without any preferential advantage accruing to any related party concerned.

REMUNERATION

Members of the Board

The Chairman and other members of the Board were entitled for sitting fees of Rials 500 each per meeting. During the year 2019, the Directors were paid sitting fees for the Board meetings, Nomination, Remuneration and Executive Committee meetings, Audit Committee meetings and Risk Committee meetings, details of which are provided in Table 1.

The company has provided an amount of Rials 175,000 (Rials 147,500 paid in 2019 for 2018 remuneration) during the year on account of Directors' remuneration which will be paid in 2020 if approved by the shareholders at the annual general meeting.

Top Five Officials of the Company

The top five managerial executives of the Company are employed through service contracts and the contracts are open ended, which can be terminated by the Company or the executive by giving a notice of three months. The gross remuneration paid to the top 5 Officials of the Company amounted to Rials 881K which includes all allowances, travel and transport expenses, perquisites and bonus.

Evaluation of Board of Directors

As per the new code of Corporate Governance for Public Listed Companies issued by the Capital Market Authority in July 2015, the performance of the Board of Directors needs to be reviewed impartially and independently by a third party appointed by the annual general meeting in accordance with a benchmark and standards set by the board or the general meeting once during the term of the Board of Directors. The Shareholders' in the Annual General Meeting held on March 27, 2018 have appointed Protiviti, an independent entity, to evaluate the performance of the Board of Directors. The next review will be carried out during the tenure of the new Board of Directors between March 2020 to March 2023.

External Quality Assurance Review of the Internal Audit Unit

As per the guidelines issued by the CMA in December 2018, the company should conduct a comprehensive external evaluation of the Internal Audit Unit work at least once every four years through a specialized third party - other than the Company's external auditor, provided that the first evaluation is carried out within a period not exceeding one year from the date of implementation of this code. The Board of Directors have appointed Moore, an independent entity, to carry out evaluation of the Internal Audit Unit. Moore have carried out the evaluation of the Internal Audit Unit and submitted their report. The Audit Committee has reviewed the evaluation report and submitted to the Board of Directors Moore concluded that the Internal Audit Activity of National Finance "generally conforms" to the International Professional Practices Framework (IPPF) and local regulations relevant to Internal Audit activity.

SHAREHOLDERS

Channels of Contact with Shareholders and investors

The quarterly financials of the Company are available in digital form at the website of Muscat Securities Market (MSM) viz., www.msm.gov.om. The quarterly, half yearly and annual results of the Company are published in two national dailies, one in English and one in Arabic. The financials of the Company are also available at the website of the Company which is: www.nationalfinance.co.om

The audited financial statements and other reports of the Company for the year ended 31 December 2019 will be discussed in the Shareholders' meeting scheduled to be held in March 2020.

After completion of the statutory audit, the annual report and financial statements (including the Board of Directors Report, Corporate Governance Report and the Management Discussion and Analysis Report) are sent by Post to all the shareholders along with the invitation to the Annual General Meeting.

Distribution of share holding

The following institutions hold more than 5% of the Company's shares:

Name	of holding %
Oman International Development & Investment Co. SAOG	34.603
Al Hilal Investment Company LLC	29.431

The remaining shareholding pattern as at 31 December 2019 was as follows:

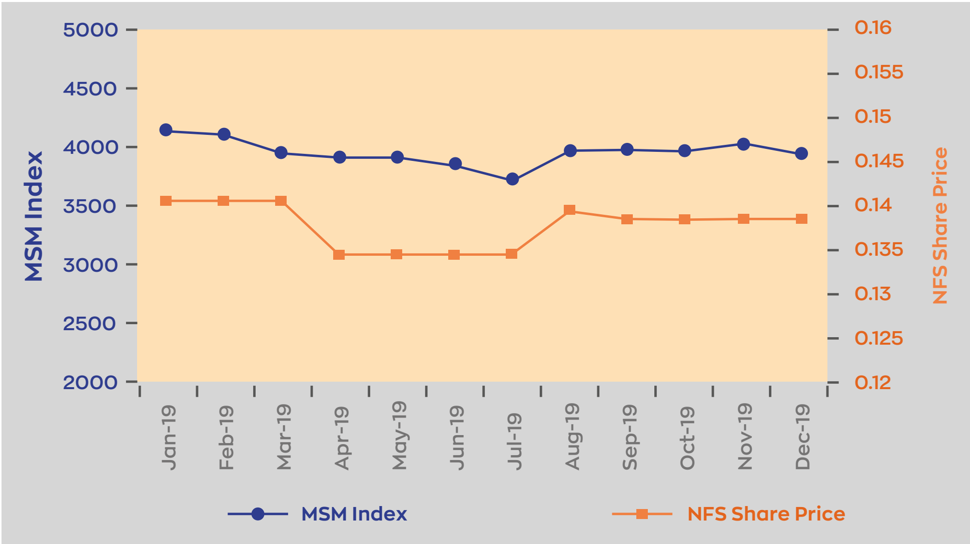
Category	No. of shareholders	% of holding
0-30,000	116	0.157
30,001 - 60,000	11	0.089
60,001 - 90,000	4	0.057
90,001 - 120,000	2	0.037
120,001 - 150,000	2	0.049
Over 150,001	41	35.577
Total	**176**	**35.966**

Statement on Market Price

The Company's shares are listed in the Muscat Securities Market. The closing share price as at 31 December 2019 was Rials 0.139 per share. The market price quotes for the traded shares during 2019 were as follows.

Month	High	Low	Close	Traded Volume	Value Rials
January	0.142	0.131	0.141	600,721	82,031
February	0.151	0.141	0.141	142,800	20,143
March	0.141	0.141	0.141	244,861	34,526
April	0.135	0.135	0.135	15,000	2,025
May	0.135	0.135	0.135	-	-
June	0.135	0.135	0.135	-	-
July	0.135	0.135	0.135	-	-
August	0.140	0.135	0.140	1,297,778	175,250
September	0.140	0.138	0.139	1,159,891	160,285
October	0.140	0.138	0.139	-	-
November	0.140	0.138	0.139	-	-
December	0.140	0.138	0.139	-	-

Performance of the company in comparison with MSM index for Banking & Investment companies.



STATUTORY AUDITORS

The shareholders of the company appointed PricewaterhouseCoopers (PwC) as its auditors for 2019. PwC is a global network of firms operating in 157 countries with more than 276,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy.

Established in the Middle East for over 40 years, PwC Middle East has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 5,600 people. (www.pwc.com/me).

PwC has been established in Oman for over 40 years and the Firm comprises seven partners, including one Omani national, and over 180 professionals and support staff. Our experts in assurance, tax and advisory professionals are able to combine internationally acquired specialist consulting and technical skills with relevant local experience.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

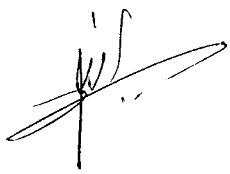
PWC billed an amount of RO 39,000 towards professional services rendered to the Company for the year 2019.

DETAILS OF NON-COMPLIANCE

There was no instance of non-compliance on any matter relating to the CBO regulations, Commercial Companies Law of Oman, Capital Market Authority's (CMA's) Code of Conduct on Corporate Governance for MSM listed companies, CMA Regulations or the MSM listing agreements during the year 2019.

ACKNOWLEDGMENT

The Board of Directors confirms its liability in respect of preparation of the financial statement in accordance with the applicable rules and standards. The Board also confirms that it has reviewed the efficiency and adequacy of internal control systems of the Company and confirms that they comply with internal rules and regulations. Further, the Board confirms that there are no material items that affect the continuation of the Company and its ability to continue its operations during the next financial year.



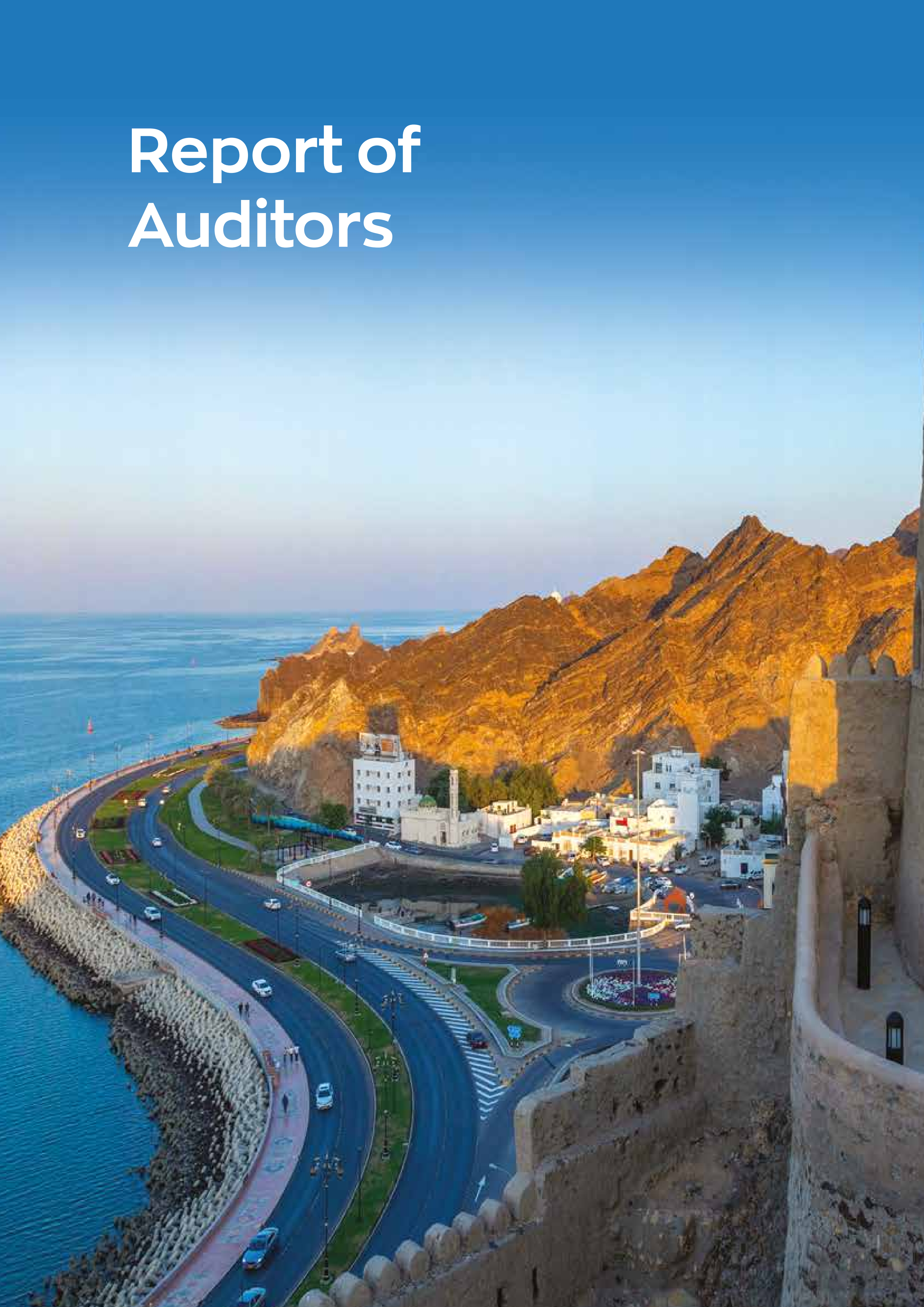
Taya Jandal Ali
Chairman

Table 1

Name of the Director	Institution represented	Whether attended last AGM held on March 31, 2019	No. of meetings attended				Director-ship in other SAOG Companies	Sitting Fees paid to each Director during 2019 Rials	Directors Remuneration paid to each Director during 2019 Rials
			Board	Nomination, Remuneration and Executive Committee	Audit Committee	Risk Committee			
Taya Jandal Ali	Himself	Yes	5	-	-	-	1	2,500	29,500
Hani Al Zubair	Himself	Yes	3	3	-	-	-	3,000	14,750
Pramod G. Karajgikar	& Muscat Contract Cleaning Maintenance LLC	Yes	3	-	5	-	1	4,000	14,750
*Francis Pinto	Al Thurya For Investments LLC	Yes	1	-	2	-	-	1,500	14,750
K. Balaji	Al Hilal Investment Co. LLC	Yes	4	3	-	-	-	3,500	14,750
AbdulAziz Al Balushi	Oman International Development and Investment Co. SAOG	Yes	4	3	-	5	1	6,000	14,750
K. Palanivelu	Muscat Trading Co. LLC	Yes	4	-	4	1	-	4,500	14,750
**Mr. Rashid Al Saadi	Himself	Yes	1	-	-	1	-	1,000	14,750
Mr. Badar Al Shanfari	Himself	Yes	4	-	1	3	1	4,000	14,750
Mr. Sanjay Kawatra	Himself	No	3	-	-	2	-	2,500	-
*Mr. Asim Al Ghailani	Al Thurya For Investments LLC	No	2	-	2	-	-	2,000	-
Total								34,500	147,500

* Al Thuraya for Investments LLC has replaced Mr. Francis Pinto with Mr. Asim Al Ghailani in July 2019
** Mr. Rashid Al Saadi has resigned in April 2019. Mr. Sanjay Kawatra has been appointed as a Temporary Director in May 2019.

Report of Auditors



Independent auditor's report to the shareholders of National Finance Company SAOG

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Finance Company SAOG (the "Company") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of profit or loss and other comprehensive income for the year ended 31 December 2019;
- the statement of financial position as at 31 December 2019;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matters	• Expected credit losses on net investment in finance leases, working capital and factoring receivables • Impairment of goodwill

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

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Independent auditor's report to the shareholders of National Finance Company SAOG (continued)

Our audit approach (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on net investment in finance leases, working capital and factoring receivables At 31 December 2019, the Company has net investment in finance leases, working capital and factoring receivables of RO 426.646 million net of credit impairment provision of RO 35.749 million. The Company applies the requirements of International Financial Reporting Standard 9 'Financial Instruments' (IFRS 9) to determine Expected Credit Loss (ECL) on its net investment in finance leases, working capital and factoring receivables. We focused on this area because the directors make complex and subjective judgements over both timing of recognition of impairment and the estimation of the amount of impairment loss, such as: • choosing appropriate models and assumptions for the measurement of ECL which includes estimation of Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD); • determining criteria for Significant Increase in Credit Risk (SICR); • establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL; • judgement to determine when a default event has occurred (for stage 3 customers); and • determining disclosure requirements in accordance with IFRS. Information on the accounting policy, credit risk and significant estimates and judgements are included in notes 2.4.1, 3.1 and 4.1, respectively, to the accompanying financial statements. Disclosures relating to the ECL provisions are included in note 12 to the accompanying financial statements.	We obtained understanding and tested the design and operating effectiveness of the key controls over the credit processes such as loan origination, ongoing monitoring and provisioning of net investment in finance leases, working capital and factoring receivables. We performed the following tests: • read the Company's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; • obtained an understanding of and tested the completeness and accuracy of the historical and current dataset used for ECL calculation; • tested a sample of customers to determine the appropriateness and proper application of the staging criteria; • obtained an understanding of the methodology to identify and calculate impairment allowance for stage 3 exposures and tested a sample of credit exposures against the methodology; • assessed the related financial statement disclosures. We involved our specialists in areas that required specific expertise (e.g. ECL model) including: • testing the implementation of IFRS 9 methodology for the ECL calculation; • testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used; • assessing the appropriateness of the definition of default; • assessing the appropriateness of PD and LGD and evaluating the reasonableness of the EAD; • assessing the appropriateness of the criteria used to determine the SICR and the resultant classification of exposures into various stages including movements between stages; and • testing and assessing the reasonableness of the Company's use of scenarios, weightings and discounting.

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Independent auditor's report to the shareholders of National Finance Company SAOG (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
Impairment of goodwill	
As at 31 December 2019, the Company has goodwill amounting to RO 5.950 million relating to the merger of Oman Orix Leasing Company SAOG (OOLC) that took place in 2018. Goodwill is required to be tested at least annually for impairment or whenever there is an impairment indicator. We focused on this area due to the significance of the goodwill balance and because the directors' assessment of the 'value in use' involves judgements about the future results of the business and the discount rates applied to future cash flow forecasts. Based on the assessment, the directors have concluded that goodwill is partially impaired and recognised an impairment loss of RO 0.256 million in the financial statements of the Company for the year ended 31 December 2019. Disclosure on the accounting policy for goodwill and significant estimates and judgements involved in the impairment assessment are mentioned in notes 2.19.1 and 4.3, respectively, to the accompanying financial statements.	Along with our internal valuation expert, we performed the following procedures in relation to the directors' goodwill impairment assessment: • assessed the appropriateness of the methodology, valuation model and various inputs selected by the directors to calculate the 'value in use'; • tested the mathematical accuracy of the directors' valuation model and independently recalculated the discount rates applied to the cash flows in the model; • inputs used in the determination of assumptions for the calculation of 'value in use' were tested by reference to the underlying supports, where applicable, including external data; • tested the future cash flow forecasts and the process by which they were drawn up, including tracing these cash flows to the business plan approved by the board of directors; and • tested the adequacy of the disclosures in the financial statements relating to goodwill impairment and the related estimates involved.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, Corporate Governance Report and Management Discussion and Analysis Report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Company's Annual Report, which is expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Company's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

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Independent auditor's report to the shareholders of National Finance Company SAOG (continued)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent auditor's report to the shareholders of National Finance Company SAOG (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Further, as required by the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the financial statements have been prepared and comply, in all material respects, with those requirements and provisions.

PricewaterhouseCoopers

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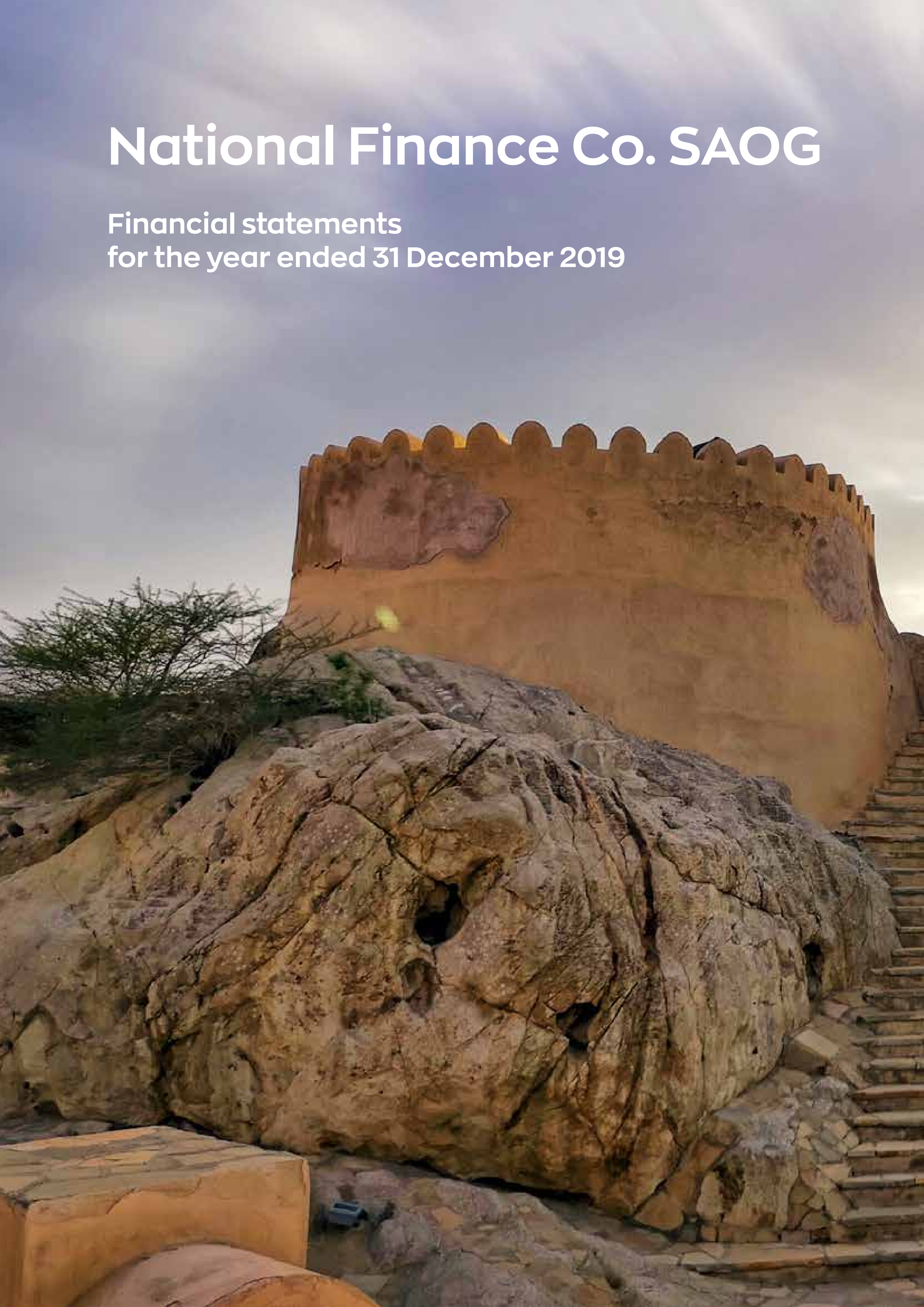
س ت ١٢٣٠٨٦٥
C.R. No 1230865
PricewaterhouseCoopers LLC

Kashif Kalam
Muscat, Sultanate of Oman
12 March 2020

National Finance Co. SAOG

Financial statements
for the year ended 31 December 2019



Registered office:
P.O.Box 1706
Postal Code 112
Ruwi
Sultanate of Oman

Principal place of business:
Building No. 241
Way No. 4149
Al Khuwair
Sultanate of Oman

Statement of Profit or Loss and other Comprehensive Income
for the year ended 31 December 2019

	Note	2019 RO '000	2018 RO '000
Income			
Income from financing activities	12 (a)	41,806	39,530
Finance costs		(16,302)	(14,849)
Net finance income		25,504	24,681
Other operating income	6	2,826	2,817
		28,330	27,498
Expenses			
Operating expenses	7	(9,537)	(10,843)
Depreciation	13	(631)	(514)
Amortization	1.2 (d)	(257)	(255)
Impairment of goodwill	4.3	(256)	-
Net impairment loss on lease receivables	12 (c)	(6,480)	(1,835)
Bad debts written back – net		54	32
Total expenses		(17,107)	(13,415)
Profit before tax		11,223	14,083
Income tax expense	8 (b)	(1,206)	(2,068)
Profit after tax		10,017	12,015
Other comprehensive income **Items that will be classified to profit or loss**			
Movement in revaluation reserve – net of tax		31	26
Total comprehensive income		10,048	12,041
Basic and diluted earnings per share (RO) - restated	9	0.016	0.020

The notes and other explanatory information on pages 45 to 79 form an integral part of these financial statements.

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Statement of Financial Position as at 31 December 2019

	Note	2019 RO '000	2018 RO '000
ASSETS			
Cash and cash equivalents	10	7,947	4,973
Net investment in finance leases	12	389,384	401,634
Working capital and factoring receivables	12	37,262	18,006
Advances, prepayments and other receivables		3,403	3,187
Assets held for sale	26	1,500	-
Deferred tax asset	8	-	410
Goodwill	4.3	5,950	6,206
Intangible assets	1.2 (c)	1,280	1,537
Property and equipment	13	6,328	5,791
Statutory deposit	11	250	250
Total assets		453,304	441,994
LIABILITIES AND EQUITY			
LIABILITIES			
Creditors and accruals	17	5,138	14,082
Tax liabilities	8	2,007	1,471
Bank borrowings	19	320,023	297,790
Fixed deposits	20	17,009	23,896
Deferred tax liabilities	8	304	339
End of service benefits	18	711	722
Total liabilities		345,192	338,300
EQUITY			
Capital and reserves			
Share capital	14	54,123	51,792
Share premium		5,786	5,786
Revaluation reserve		783	814
Foreign currency reserve	27	4,321	602
Special reserve on restructured accounts		-	21
Voluntary reserve	28	3,000	-
Legal reserve	15	7,699	6,697
Retained earnings		14,331	19,913
Total shareholders' equity attributable to the equity holders of the company		90,043	85,625
Perpetual bonds	16	18,069	18,069
Total equity		108,112	103,694
Total liabilities and equity		453,304	441,994
Net assets per share (RO)	9	0.166	0.165

These financial statements including notes and other explanatory information on pages 40 to 79 were approved and authorised for issue in accordance with a resolution of the Board of Directors on 29 January 2020 and signed on their behalf by:

TAYA JANDAL ALI
CHAIRMAN

ROBERT PANCRAS
CHIEF EXECUTIVE OFFICER

Independent auditors' report - pages 33-37.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Revaluation reserve	Foreign currency reserve	Special reserve on restructured accounts	Voluntary reserve	Legal reserve	Retained earnings	Total	Perpetual bonds	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
1 January 2019	51,792	5,786	814	602	21	-	6,697	19,913	85,625	18,069	103,694
Comprehensive income:											
Profit for the year	-	-	-	-	-	-	-	10,017	10,017	-	10,017
Other comprehensive income											
Incremental depreciation – net of tax	-	-	(31)	-	-	-	-	31	-	-	-
Total comprehensive income	-	-	(31)	-	-	-	-	10,048	10,017	-	10,017
Other transactions within equity:											
Transfer to / (from) reserves	-	-	-	3,719	(21)	3,000	-	(6,698)	-	-	-
Transfer to legal reserve	-	-	-	-	-	-	1,002	(1,002)	-	-	-
Perpetual bond interest (note 16)	-	-	-	-	-	-	-	(1,456)	(1,456)	-	(1,456)
Total other transactions within equity	-	-	-	3,719	(21)	3,000	1,002	(9,156)	(1,456)	-	(1,456)
Transactions with owners:											
Cash dividend (note 21)	-	-	-	-	-	-	-	(4,143)	(4,143)	-	(4,143)
Stock dividend (note 21)	2,331	-	-	-	-	-	-	(2,331)	-	-	-
Total transactions with owners	2,331	-	-	-	-	-	-	(6,474)	(4,143)	-	(4,143)
31 December 2019	54,123	5,786	783	4,321	-	3,000	7,699	14,331	90,043	18,069	108,112

The notes and other explanatory information on pages 45 to 79 form an integral part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Revaluation reserve	Foreign currency reserve	Special reserve on restructured accounts	Voluntary reserve	Legal reserve	Retained earnings	Total	Perpetual bonds	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
1 January 2018	27,926	-	840	-	-	-	5,495	14,619	48,880	-	48,880
Comprehensive income:											
Profit for the year	-	-	-	-	-	-	-	12,015	12,015	-	12,015
Other comprehensive income											
Incremental depreciation – net of tax	-	-	(26)	-	-	-	-	26	-	-	-
Total comprehensive income	-	-	(26)	-	-	-	-	12,041	12,015	-	12,015
Other transactions within equity:											
Transfer to reserves	-	-	-	602	21	-	-	(623)	-	-	-
Transfer to legal reserve	-	-	-	-	-	-	1,202	(1,202)	-	-	-
Proceeds from perpetual bond (note 16)	-	-	-	-	-	-	-	-	-	18,069	18,069
Perpetual bond interest (note 16)	-	-	-	-	-	-	-	(734)	(734)	-	(734)
Total other transactions within equity	-	-	-	602	21	-	1,202	(2,559)	(734)	18,069	17,335
Transactions with owners:											
Rights issue (note 1.2)	21,751	5,786	-	-	-	-	-	-	27,537	-	27,537
Ordinary shares (note 1.2)	719	-	-	-	-	-	-	-	719	-	719
Cash dividend (note 21)	-	-	-	-	-	-	-	(2,792)	(2,792)	-	(2,792)
Bonus shares under allotment (note 21)	1,396	-	-	-	-	-	-	(1,396)	-	-	-
Total transactions with owners	23,866	5,786	-	-	-	-	-	(4,188)	25,464	18,069	25,464
31 December 2018	51,792	5,786	814	602	21	-	6,697	19,913	85,625	18,069	103,694

The notes and other explanatory information on pages 45 to 79 form an integral part of these financial statements.

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RO '000	2018 RO '000
Cash flows from operating activities			
Profit before tax		11,223	14,083
Adjustments for:			
Depreciation	13	631	514
Amortization	1.2 (c)	257	255
Impairment of goodwill	4.3	256	-
End of service benefits charge	18	143	313
Gain on sale of property and equipment		-	(20)
Impairment on lease receivables	12 (b)	6,480	1,835
Bad debts written back		(54)	(32)
Finance costs		16,302	14,849
Cash flows from operating activities before working capital changes and payment of end of service benefit, interest and tax		35,238	31,797
Changes in working capital:			
Net investment in financing activities		(13,664)	(23,210)
Advances, prepayments and other receivables		(305)	(1,016)
Creditors and accruals		(6,999)	(993)
Interest paid		(17,149)	(13,336)
Income tax paid	8 (f)	(895)	(1,844)
End of service benefits paid	18	(154)	(277)
Net cash used in operating activities		(3,928)	(8,879)
Cash flows from investing activities			
Purchase of property and equipment		(900)	(801)
Proceeds from sale of property and equipment	13	-	91
Statutory deposit received		-	250
Payment for acquisition of OOLC	1.2	-	(48,091)
Net cash used in investing activities		(900)	(48,551)
Cash flows from financing activities			
Proceeds from bank borrowings	22	515,894	252,647
Repayment of bank borrowings	22	(492,548)	(234,720)
Proceeds from fixed deposits	22	8,723	6,110
Repayment of fixed deposits	22	(15,164)	(12,475)
Proceeds from rights and ordinary share issue		-	28,256
Proceeds from perpetual bond net of bond issue expenses	16	-	18,069
Dividend paid		(6,935)	-
Perpetual bond interest paid		(1,456)	(734)
Net cash generated from financing activities		8,514	57,153
Net change in cash and cash equivalents during the year		3,686	(277)
Cash and cash equivalents at the beginning of the year		3,720	1,406
Net cash transferred on acquisition of OOLC	1.2 (b)	-	2,591
Cash and cash equivalents at the end of the year	22	7,406	3,720

The notes and other explanatory information on pages 45 to 79 form an integral part of these financial statements.

Independent auditors' report - pages 33-37.

1 General

1.1 Legal status and principal activities

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

The Company operates in the Sultanate of Oman with a network of 20 branches as at 31 December 2019 (31 December 2018: 23 branches).

1.2 Business combination

IFRS 3 prescribes the accounting treatment for business combinations. The standard specifies that 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 baizas per share	RO 21.8 million.
Share premium @ 25 baizas per share	RO 5.4 million.
Issue costs @ 2 baizas per share	RO 0.4 million.

(a) Goodwill and intangible assets on acquisition

	RO '000
Consideration transferred	
Cash	48,091
Equity instruments	719
Total consideration	**48,810**
Net assets of OOLC acquired at fair value	
Total assets	204,293
Total liabilities	(162,612)
Merger related expense reserve	(600)
Fair value of net assets acquired	**41,081**
Excess purchase price	**7,729**
Allocated between:	
Intangible assets identified and valued	
Customer relationships	1,792
Deferred tax liability	(269)
Residual goodwill	**6,206**

The intangible assets will be amortized over a period of seven years. Amortization of RO 257K has been made in the current financial year (2018 – RO 255K) in respect of intangible assets.

General (continued)

1.2 **Business combination** (continued)

(b) Identifiable assets acquired and liabilities assumed

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

	RO '000
Cash and cash equivalents	2,591
Statutory deposit	250
Net investment in financing activities	199,852
Advances and prepayments	891
Deferred tax asset	185
Property and equipment	524
Total assets	**204,293**
Bank borrowings	(149,235)
Fixed deposits	(8,250)
Creditors and accruals	(4,420)
Tax liabilities	(707)
Total liabilities	**162,612**
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.

(c) Intangible assets

	2019	2018
	RO '000	RO '000
1 January	**1,537**	1,792
Amortization of intangible asset	**(257)**	(255)
31 December	**1,280**	1,537

2 Summary of significant accounting policies

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

2.1 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board and the requirements of the Commercial Companies Law of 2019 and the relevant disclosure requirements of the Capital Market Authority ("CMA") and applicable regulations of the Central Bank of Oman.

(b) Basis of preparation

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

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(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 recognized in the period in which the estimate is revised and in any future periods effected.

(d) Standards, amendments and interpretations effective in 2019 and relevant for the Company's operations:

For the year ended 31 December 2019, 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 2019.

(e) Changes in significant accounting policies:

The Company has adopted IFRS 16 'Leases' as issued by the IASB with a date of transition of 1 January 2019. 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 replaced 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 Company has applied IFRS 16 using the modified retrospective approach and the impact on the implementation of the IFRS 16 has been quantified and found to be immaterial, hence no restatement is required.
The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17.

The Company recognizes a right-of- use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payment made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of -use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the useful life of the right-of-use asset or the end of the lease term. The right of use asset is periodically reduced by the impairment losses, if any, and adjusted for certain re-measurements of the lease liability.
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liability as on 1 January 2019 was 5.0% per annum.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

I. Measurement of lease liabilities

	2019 RO'000
Operating lease commitments disclosed as at 31 December 2018	-
Operating lease commitments existed at 31 December 2018	220
Discounted using the lessee's incremental borrowing rate of 5% at the date of initial application	205
Lease liability recognized as at 1 January 2019	**205**
Of which are:	
Current lease liability	65
Non-current lease liability	140
	205

II. Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at 31 December 2018.

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

Certain new accounting standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2020 and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

i. IFRS 17 'Insurance Contracts' was issued by the IASB on 18 May 2017 and is effective for periods beginning on or after 1 January 2021.

ii. On 26 September 2019, the IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

iii. On 22 October 2018, the IASB issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

iv. On 31 October 2018, the IASB issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after 1 January 2020.

2.2 Interest

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

The calculation of the effective interest rate includes transaction costs that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability. Penal charges and other fees are recognized when realized.

Lease processing fee charges are recognized using effective interest rate.

2 Summary of significant accounting policies (continued)

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 statement of financial position as "Net investment in finance leases" working capital finance and factoring receivables 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. Interest on factoring and working capital finance receivables is recognized over the tenure of agreement. Factoring contracts are generally for a term ranging between 90 days to 180 days.

2.4 Financial assets and liabilities

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset or a 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. The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Immediately after initial recognition, an Expected Credit Loss (ECL) is recognized for financial assets measured at amortized cost and fair value through other comprehensive income, which results in an accounting loss being recognized in the statement of profit or loss when an asset is newly originated.

2.4.1 Financial assets

Classification and subsequent measurement of financial assets

The Company classifies and measures its financial assets that are debt instruments at amortized cost. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as cash and cash equivalents, 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 amortized cost:

Amortized 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 amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized. Interest earned from these financial assets is recognized in the statement of profit or loss using the effective interest rate method.

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

2 Summary of significant accounting policies (continued)

2.4 Financial assets and liabilities (continued)

2.4.1 Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is internally evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For instance, the Company may hold liquidity portfolio of assets as part of liquidity management. This portfolio generally will be classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVPL.

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

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

Impairment

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

- Net investment in finance leases, working capital and factoring receivables;
- Balance in current account with banks; and
- Statutory deposits.

No impairment loss is recognized on equity investments.

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

… an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

… the time value of money; and

… reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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.

2 Summary of significant accounting policies (continued)

2.4 Financial assets and liabilities (continued)

2.4.1 Financial assets (continued)

Impairment (continued)

If the terms are substantially different, the Company derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculated a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognized 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 de-recognition and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in the statement of profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

De-recognition other than on modification

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

2.4.2 Financial liabilities

Classification and measurement

Financial liabilities are initially recognized at fair value, including transaction costs, and subsequently measured at amortized 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.

De-recognition

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

Modification of financial liabilities

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

Derivatives and hedging

The Company has elected to apply the hedge accounting requirements on adoption of IFRS 9. Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. The Company documents, at the inception of the hedge, the relationship between hedged items and hedging instruments as well as its risk management objective and strategy for undertaking various hedge transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Company documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2 Summary of significant accounting policies (continued)

2.4 Financial assets and liabilities (continued)

2.4.2 Financial liabilities (continued)

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognized hedged asset is disposed of), the cumulative gain or loss previously recognized in other comprehensive income is immediately reclassified to the statement of profit or loss.

2.5 Working capital finance and finance lease commitments

ECL allowance on working capital finance and undrawn lease commitments is recognized 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 recognized 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	25
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 recognized in the statement of profit or loss.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

2 Summary of significant accounting policies (continued)

2.7 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, current accounts and short term 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 recognized initially at fair value, being their issue proceeds (fair value of consideration received). Borrowings are subsequently stated at amortized cost; any difference between proceeds, and the redemption value is recognized 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 recognized initially at fair values and subsequently measured at amortized cost using the effective interest rate method. Liabilities are recognized 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 recognized 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 recognized as an expense in the statement of profit or loss as incurred. In accordance with the provisions of IAS 19, Employee Benefits, the Company carried 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 and determined that it is not materially different from the provision made. Under this method, an assessment is made of an employee's expected service period with the Company and the expected basic salary at the date of leaving the service, discounted over the period of remaining expected period using the country's risk free rate.

2.12 Foreign currency transactions

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using Rial Omani which is the currency of the Sultanate of Oman, being the economic environment in which the Company operates (the functional currency). The financial statements are prepared in Rial Omani, rounded to the nearest thousand.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

2.13 Taxation

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

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

2 Summary of significant accounting policies (continued)

2.13 Taxation (continued)

A deferred tax asset is recognized 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 the shareholders at the Ordinary General Meeting subject to the approval of the Central Bank of Oman.
Dividends are recognized 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 2019 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 the provisions of Commercial Companies Law 2019, 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 RO 200,000 in one year. The sitting fee for each Director shall not exceed RO 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 recognized 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 recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

2.19 Intangible assets and Goodwill

2.19.1 Goodwill

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

2.19.2 Intangible assets

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

2 Summary of significant accounting policies (continued)

2.19 Intangible assets and Goodwill (continued)

2.19.3 Amortisation

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

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.

2.20 Provisions

Provisions are recognized when the Company has a present (legal or constructive) obligation arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

2.21 Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate of 5% at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

2.22 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks and financial institutions on behalf of customers to secure banking facilities.

2.23 Earnings per share

I. Basic earnings per share

Basic earnings per share is calculated by dividing:

- • the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

II. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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, market risk (interest rate risk & foreign currency risk) and liquidity 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 considers credit risk with respect to balances placed with banks and provides for loss allowance.

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

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

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

3.1.1 Credit risk measurement

The 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. Under IFRS 9, the Company 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 the 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.

The Company is using an internally developed credit risk rating mechanism to segregate/pool its customers based on their propensity to default. To determine credit risk related to each customer, the Company assesses various internal and external characteristics at the time of application, which may include but 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 which are also considered as an input to credit risk rating mechanism for each client and exposure.

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

Retail Portfolio:
Once an asset is recognized for retail business, the Company monitors and assesses payment behavior of each borrower periodically to determine the creditworthiness of the client using factors like Days Past Due (DPD) as of current date, maximum DPD as of previous 6 months from reporting date.

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement (continued)

Small Medium Enterprise (SME) Portfolio:
Once an asset is recognized for SME business, the Company 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 6 months from reporting date.

Corporate Portfolio:
Once an asset is recognized for corporate business, Company 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 DPD as of current date, maximum DPD as of previous 6 months from reporting date.

Under IFRS 9, 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 below:

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

The key judgements and assumptions adopted by the Company in addressing the requirements of IFRS 9 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.
- Choosing appropriate models and assumptions for the measurement of ECL which includes estimation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD);
- 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).
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and the associated ECL
- Judgement to determine when a default event has occurred; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.
- 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.

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement (continued)

Significant increase in credit risk (continued)

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 credit obligation to the Company.

Measuring Expected Credit Loss (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).

Probability of Default (PD) estimates are estimates at a certain date, which will be calculated based on statistical models and assessed using rating tools tailored to the various categories of counterparties and exposures.

These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates.

Loss Given Default (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 and recovery costs of any collateral that is integral to the financial asset.

Exposure at Default (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.

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 Inflation rates, Consumer Price Index and oil prices.

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement (continued)

Impairment

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

- Transfers between Stage 1 and Stage 2 or Stage 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent 'step up' (or 'step down') between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized 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;
- Discounts unwinding within ECL due to the passage of time, as ECL is measured on a present value basis;
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

Definition of write off

As a matter of policy, the Company considers waiver / write-off or settlement only in such cases where it is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

Critical accounting estimates and judgements

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

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

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

- Customer type
- Credit risk grading

In the above context, there are three segments considered for the IFRS 9 modelling – Retail, SME and Corporate.

3.1.2 Credit risk control and mitigation policies

The Company's portfolio comprises leases of vehicles and equipment wherein the lending is collateralised by the assets financed. The Company holds collaterals in respect of lease receivable exposures in the form of joint title to the vehicles and equipment financed. The values against these collaterals are written down on a periodical 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.

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.2 Credit risk measurement (continued)

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 financial statements
- adverse market feedback

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 recognized as per IFRS 9	Reserve interest as per CBO norms
		RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
	Stage 1	350,169	999	3,535	(2,536)	346,634	34,909	-
	Stage 2	46,316	531	1,902	(1,371)	44,414	4,758	-
Standard	Stage 3	3,531	72	1,203	(1,131)	2,328	321	-
Subtotal		400,016	1,602	6,640	(5,038)	393,376	39,988	-
	Stage 1	86	12	1	11	85	17	-
Special	Stage 2	282	25	20	5	262	37	4
Mention	Stage 3	13,830	1,029	4,113	(3,084)	9,717	1,023	465
Subtotal		14,198	1,066	4,134	(3,068)	10,064	1,077	469
	Stage 1	16	4	1	3	15	3	-
	Stage 2	6	1	-	1	6	2	-
Substandard	Stage 3	5,774	1,515	1,993	(478)	3,781	336	308
Subtotal		5,796	1,520	1,994	(474)	3,802	341	308
	Stage 1	4	2	-	2	4	-	-
	Stage 2	4	2	-	2	4	1	-
Doubtful	Stage 3	9,469	2,645	2,783	(138)	6,686	144	642
Subtotal		9,477	2,649	2,783	(134)	6,694	145	642
	Stage 1	8	5	-	5	8	1	-
	Stage 2	25	25	3	22	22	3	-
Loss	Stage 3	32,875	23,319	20,195	3,124	12,680	251	4,144
Subtotal		32,908	23,349	20,198	3,151	12,710	255	4,144
	Stage 1	350,283	1,022	3,537	(2,515)	346,746	34,930	-
	Stage 2	46,633	584	1,925	(1,341)	44,708	4,801	4
	Stage 3	65,479	28,580	30,287	(1,707)	35,192	2,075	5,559
Total	Total	462,395	30,186	35,749	(5,563)	426,646	41,806	5,563

The provisions held as per IFRS 9 of RO 6,640K on standard grade assets includes RO 366K of items not covered under CBO norms. These include provisions on bank balances, guarantees and unutilized facilities.

3 **Financial risk management** (continued)

3.1 **Credit risk** (continued)

3.1.3 **Impairment** (continued)

As at 31 December 2018

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount Rial' 000	Provision required as per CBO norms Rial' 000	Provision held as per IFRS 9 Rial' 000	Difference Rial' 000	Net carrying amount Rial' 000	Interest recognized as per IFRS 9 Rial' 000	Reserve interest as per CBO Norms Rial' 000
Standard	Stage 1	353,196	95	2,037	(1,942)	351,159	33,232	-
	Stage 2	36,460	277	6,150	(5,873)	30,310	3,762	-
	Stage 3	3,260	466	660	(194)	2,600	241	-
Subtotal		392,916	838	8,847	(8,009)	384,069	37,235	-
Special Mention	Stage 1	391	35	8	27	383	48	1
	Stage 2	2,506	188	395	(207)	2,111	227	30
	Stage 3	14,598	1,001	3,984	(2,983)	10,614	984	536
Subtotal		17,495	1,224	4,387	(3,163)	13,108	1,259	567
Substandard	Stage 1	50	12	1	11	49	5	-
	Stage 2	535	132	151	(19)	384	57	6
	Stage 3	10,767	2,633	2,728	(95)	8,039	572	537
Subtotal		11,352	2,777	2,880	(103)	8,472	634	543
Doubtful	Stage 1	20	9	1	8	19	3	-
	Stage 2	202	63	21	42	181	22	1
	Stage 3	5,693	1,859	1,882	(23)	3,811	199	368
Subtotal		5,915	1,931	1,904	27	4,011	224	369
Loss	Stage 1	33	22	1	21	32	5	-
	Stage 2	119	98	14	84	105	21	-
	Stage 3	20,901	15,536	11,058	4,478	9,843	152	2,545
Subtotal		21,053	15,656	11,073	4,583	9,980	178	2,545
Total	Stage 1	353,690	173	2,048	(1,875)	351,642	33,293	1
	Stage 2	39,822	758	6,731	(5,973)	33,091	4,089	37
	Stage 3	55,219	21,495	20,312	1,183	34,907	2,148	3,986
	Total	448,731	22,426	29,091	(6,665)	419,640	39,530	4,024

Provision held as per IFRS 9 includes the interest reserved by the Company as per CBO norms against impaired finance lease receivables, working capital and factoring receivables.

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 RO' 000	Provision required as per CBO norms RO' 000	Provision held as per IFRS 9 RO' 000	Difference RO' 000	Net carrying amount RO' 000	Interest recognized as per IFRS 9 RO' 000	Reserve interest as per CBO norms RO' 000
Classified as performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-
Classified as non-performing	Stage 1	101	20	2	18	99	20	-
	Stage 2	235	47	17	30	218	35	2
	Stage 3	4,221	2,351	2,870	(519)	1,351	124	617
Subtotal		4,557	2,418	2,889	(471)	1,668	179	619
Total	Stage 1	101	20	2	18	99	20	-
	Stage 2	235	47	17	30	218	35	2
	Stage 3	4,221	2,351	2,870	(519)	1,351	124	617
	Total	4,557	2,418	2,889	(471)	1,668	179	619

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.3 Impairment (continued)

As at 31 December 2018								
Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount Rial' 000	Provision required as per CBO norms Rial' 000	Provision held as per IFRS 9 Rial' 000	Difference Rial' 000	Net carrying amount Rial' 000	Interest recognized as per IFRS 9 Rial' 000	Reserve interest as per CBO Norms Rial' 000
Classified as performing	Stage 1	2	-	-	-	2	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		2	-	-	-	2	-	-
Classified as non-performing	Stage 1	227	38	3	35	224	30	-
	Stage 2	1,161	291	224	67	937	112	2
	Stage 3	4,257	1,892	1,424	468	2,833	90	414
Subtotal		5,645	2,221	1,651	570	3,994	232	416
Total	Stage 1	229	38	3	35	226	30	-
	Stage 2	1,161	291	224	67	937	112	2
	Stage 3	4,257	1,892	1,424	468	2,833	90	414
	Total	5,647	2,221	1,651	570	3,996	232	416

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

	As per CBO norms		As per IFRS 9		Difference	
	Current year RO' 000	Previous year RO' 000	Current year RO' 000	Previous year RO' 000	Current year RO' 000	Previous year RO' 000
Impairment loss charged to profit or loss	6,480	1,835	6,480	1,835	-	-
Provisions required as per CBO norms / held as per IFRS 9	35,749	29,091	35,749	29,091	-	-
Gross NPL ratio	13.5	12.4	14.2	12.3	(0.7)	0.1
Net NPL ratio	6.2	7.0	8.1	8.1	(1.9)	(1.1)

The previous year provisions of RO 29.091 million as per CBO norms includes RO 2.641 million of general provisions.

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 31 December 2019				As at 31 December 2018
	Stage 1 12-month ECL RO '000	Stage 2 Lifetime ECL RO '000	Stage 3 Lifetime ECL RO '000	Total RO '000	Total RO '000
Bank balances	3,998	3,926	13	7,937	4,961
Investment in financing activities	350,283	46,633	65,479	462,395	448,731
Statutory deposit	250	-	-	250	250
Carrying amount before loss allowance	354,531	50,559	65,492	470,582	453,942
Loss allowance	3,537	1,925	30,287	35,749	29,091
Carrying amount after loss allowance	350,994	48,634	35,205	434,833	424,851

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:

	31 December 2019	31 December 2018
	RO'000	RO'000
Undrawn finance lease commitments (note 23)	8,124	7,423
Carrying amount	8,124	7,423

The above tables represent a worst-case scenario of credit risk exposure of the Company at 31 December 2019 and 31 December 2018.

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, working capital, factoring receivables and undrawn finance lease commitments.

3.1.5 Finance lease receivables, working capital and factoring receivables

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

Collateral held

The company holds collateral against certain of its credit exposures. The fair value of those collateral as at 31 December 2019 is RO 320.4 million (2018 – RO. 333.7 million).

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.

3.1.6 Concentration of risks

(a) Customer concentration of net investment in finance leases, working capital and factoring receivables

	2019	2018
	RO '000	RO '000
Individuals	168,123	170,358
SME and Corporate	258,523	249,282
	426,646	419,640

(b) Geographical concentration

All the Company's financial lease receivable, working capital and factoring receivables are concentrated within the Sultanate of Oman.

(c) Economic sector concentration of net investment in finance leases, working capital finance and factoring receivables.

	2019	2018
	RO '000	RO '000
Trading, contracting and services	226,998	224,043
Individuals	168,123	170,358
Manufacturing	31,525	25,239
	426,646	419,640

3.2 Market risk

The Company is exposed to the market risk due to changes in market, such as interest rate and foreign exchange rates.

3 Financial risk management (continued)

3.2.1 Interest rate risk

Interest rate risk arises from the possibility of changes in interest rates and mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period.As the Company has significant interest-bearing financial assets and liabilities, the Company's income and operating cash flows are substantially dependent on market interest rates. The finance lease receivables and deposits from corporate entities carry fixed interest rates. The interests on these items are fixed at the inception. Accordingly, any changes in applicable market rates would not expose the Company to interest rate risk. However, the Company's bank borrowings carry variable interest rates which expose the Company to interest rate risk.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios the Company calculates the impact on its profit or loss of a 1% interest rate increase. The simulation is presented to the Asset and Liability Committee (ALCO) on a monthly basis. Based on the simulation performed at the year end, the impact on the Company's profit after tax of a 1% increase in interest rates would be a maximum reduction of RO 1.71 million (December 2018 - RO 1.64 million).

3.2.2 Foreign currency risk

Foreign currency risk is the risk arising from future commercial transactions or recognized 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 RO 84.69 million at 31 December 2019 (31 December 2018 - RO 25.4 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 notional amount of forward cover as at 31 December 2019 is RO 84.69 million (31 December 2018 – RO 25.4 million).

3.3 Liquidity risk

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Company's inability to meet its obligations and commitments on the due dates and to replace funds when they are withdrawn or facilities expire.

The Company's liquidity is managed 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.

3.4 Funding approach

Sources of funding are regularly reviewed by the management, diversification through 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 etc.

3.4.1 Cash flows

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

At 31 December 2019	Up to 1 month	> 1 month to 1 year	> 1 year to 5 years	Non-fixed maturity	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Bank borrowings and deposits	37,363	213,520	86,149	-	337,032
Creditors and accruals	2,383	2,755	-	-	5,138
Financial liabilities	39,746	216,275	86,149	-	342,170

3 Financial risk management (continued)

3.4 Funding approach (continued)

3.4.1 Cash flows (continued)

At 31 December 2018	Up to 1 month RO '000	> 1 month to 1 year RO '000	> 1 year to 5 years RO '000	Non-fixed maturity RO '000	Total RO '000
Bank borrowings and deposits	60,357	192,542	68,787	-	321,686
Creditors and accruals	2,792	11,290	-	-	14,082
Financial liabilities	63,149	203,832	68,787	-	335,768

3.4.2 Off balance sheet items

	2019 RO '000	2018 RO '000
Approved lease commitments (note 23)	8,124	7,423
Bank guarantees (note 24)	788	788
Total exposure	8,912	8,211

The Company expects the majority of the approved lease commitments to be exercised by the customers and disbursed by the Company within 3 months (2018- 3 months) of the reporting date.

3.5 Fair values

Fair value information

Based on the valuation methodology outlined below, the fair value of all on and off-statement of financial position financial instruments at 31 December 2019 and 31 December 2018 is considered by the management not to be materially different from their carrying values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair value of assets and liabilities:

Assets held for sale and land and building

The fair values of the land and buildings and assets held for sale are disclosed in note 13 and 26 to these financial statements.

Net investment in finance leases, working capital finance and factoring receivables

Fair value is calculated based on discounted expected future principal and interest cash flows. Repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of finances are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of finances reflect changes in credit status since the finances were made and changes in interest rates in the case of fixed rate loans.

Bank borrowings and fixed deposits

The estimated fair value of fixed-maturity bank borrowings and fixed deposits is based on discounted cash flows using rates currently offered of similar remaining maturities. The value of long-term relationships with bankers and depositors is not taken into account in estimating fair values.

3 Financial risk management (continued)

3.5 Fair values (continued)

Fair value versus carrying amounts

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position.

Financial Instruments Category

The financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3.6 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 RO 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 the provisions of the Commercial Companies Law of Oman 2019, 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.

Gearing ratio

The Company reviews the capital structure on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Company has a limit of gearing ratio of 5 times as stipulated by the Capital Adequacy norms specified by the Central Bank of Oman.

The gearing ratio including proposed cash dividend for the year was as follows:

	2019	2018
	RO	RO
Bank borrowings	320,023	297,790
Fixed deposits	17,009	23,896
Less: cash and cash equivalents	(7,947)	(4,973)
Net debt	329,085	316,713
Total equity	108,112	103,694
Gearing ratio (times)	3.04	3.05

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.

4.1 Impairment losses on lease receivables

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

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

- 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.
- Choosing appropriate models and assumptions for the measurement of ECL which includes estimation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD);
- 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).
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and the associated ECL
- Judgement to determine when a default event has occurred; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.
- Grouping of instruments for losses measured on a collective basis.

4.2 Perpetual bonds

The Company has issued Perpetual Bond Securities listed on the Muscat Securities Market, which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

- no fixed date of maturity
- payment of interest and/or capital is solely at the discretion of the Company
- the instruments are deeply subordinated and rank just above the ordinary shareholders
- these securities also allow the Company to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of the Central Bank of Oman.

The determination of equity classification of these instruments requires significant judgement as certain clauses, particularly the "Events of Default", require interpretation. The Company, after factoring in the clauses relating to the write-down, non-payment and subordination in the instrument offering document consider that the Company will not reach the point of insolvency before a write-down is affected due to a non-viability event. Accordingly, such clauses were assessed by the Company as not being substantive for the purpose of determining the debt vs equity classification. The Company has considered appropriate independent legal advice in forming their judgement around this matter.

4.3 Impairment of Goodwill

At the end of reporting period, the Company assessed the recoverable amount of goodwill using key assumptions: 1% terminal growth rate, cost of capital of 8.55% and forecast period of five years. The impairment amongst others, is significantly dependent upon cost of capital and achievement of projected results.

The recoverable amount of the acquired portfolio was based on its value in use, determined by discounting the future cash flows to be generated from the portfolio. The carrying amount of the portfolio was determined to be higher than its recoverable amount by RO 256K and an impairment loss during 2019 (2018: nil) was recognized. The impairment loss was fully allocated to goodwill and charged to the statement of profit or loss for the year.

4 Critical accounting estimates and judgements (continued)

4.3 Impairment of Goodwill (continued)

The movement in goodwill for the year is as follows:-

	2019 RO '000	2018 RO '000
1 January	6,206	6,206
Impairment of goodwill	(256)	-
31 December	5,950	6,206

All other assumptions remaining unchanged, had the discount rate increased by 0.1% an additional impairment provision of RO. 274K would have been required.

5 Operating segments

The Company has only one reportable segment namely, leasing activities, all of which are carried out in Oman, hence no geographical segmentation is done. 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

	2019 RO '000	2018 RO '000
Penal charges	680	369
Income from pre-closed leases	450	520
Miscellaneous income	1,696	1,928
	2,826	2,817

Miscellaneous income includes processing fee of RO 269K (2018 – RO 291K)

7 Operating expenses

	2019 RO '000	2018 RO '000
Employee related expenses	7,783	8,961
Occupancy costs	201	295
Communication costs	433	426
Professional fees and subscriptions	176	182
Advertising and sales promotion	69	128
Directors' remuneration and sitting fees (note 25)	200	200
Other office expenses	675	651
	9,537	10,843

Total employee related expenses included under operating expenses comprise:

	2019 RO '000	2018 RO '000
Salaries and allowances	6,422	7,832
Other benefits	760	443
Social security costs	458	347
End of service benefits (note 18)	143	313
Other incentives	-	26
	7,783	8,961

The total number of employees as at 31 December 2019 is 311 (31 December 2018-316)

8 Taxation

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% (2018 – 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 2018 are subject to agreement with the Oman Taxation Authorities. The management is of the opinion that the additional taxes assessed in respect of open tax assessments, if any, would not be material to the Company's financial position as at 31 December 2019.

(b) Tax charge for the year

	2019 RO '000	2018 RO '000
Current tax - current year	1,407	1,514
Current tax -prior years	(576)	-
Deferred tax – current year	-	(40)
Deferred tax – prior years	375	594
	1,206	2,068

(c) Tax liabilities

	2019 RO '000	2018 RO '000
Deferred tax asset (refer note 'd' below)	-	(410)
Deferred tax liability (refer note 'e' below)	304	339
Provision for income tax (refer note 'f' below)	2,007	1,471
Net tax liabilities	2,311	1,400

(d) Deferred tax asset

Deferred tax asset arises in respect of provision for impairment of lease receivables. The deferred tax asset recognized in the statement of financial position and the movements during the year are as follows:

	2019 RO '000	2018 RO '000
1 January	410	779
Transfer from former OOLC	-	185
Addition during the year	-	40
Reduction during the year	(410)	(594)
31 December	-	410

(e) Deferred tax liability

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

	2019 RO '000	2018 RO '000
1 January	339	114
Additions during the year	-	269
Released during the year	(35)	(44)
31 December	304	339

8 Taxation (continued)

(f) Provision for income tax

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

	2019 RO '000	2018 RO '000
1 January	1,471	1,050
Transfer from former OOLC provision	600	707
Income tax charge for the year	831	1,558
Paid during the year	(895)	(1,844)
31 December	2,007	1,471

(g) Reconciliation of tax expense

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

	2019 RO '000	2018 RO '000
Accounting profit before income tax	11,223	14,083
Income tax expense computed at applicable tax rates	1,683	2,113
Items not deductible (net) in determining taxable profits	(276)	(599)
Current tax - prior years	(576)	-
Deferred tax - prior years	375	554
Tax charge for the year	1,206	2,068

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

The calculation of earnings per share is as follows:

	2019	2018
Profit for the year attributable to equity shareholders (RO '000)	10,017	12,015
Interest on perpetual bonds (RO '000)	(1,456)	(1,101)
Net profit attributable to ordinary shareholders (RO '000)	8,561	10,914
Net assets attributable to ordinary shareholders (RO '000)	90,043	85,625
Weighted average number of shares during the year ('000) – restated	541,230	537,147
Number of shares at the yearend ('000)	541,230	517,924
Basic and diluted earnings per share (RO) – restated	0.016	0.020
Net assets per share (RO)	0.166	0.165

Earnings per share as at 31 December 2019 have been calculated using weighted average shares outstanding for the year. The weighted average shares outstanding for the year ended 31 December 2019 are 541,230,454 shares (31 December 2018: 537,146,522 shares). Net assets per share have been calculated using outstanding shares as at 31 December 2019 and 31 December 2018. Weighted average number of shares outstanding as at 31 December 2018 were restated from 457,703,558 shares to 537,146,522 shares due to the issue of stock dividend during 2019.

10 Cash and cash equivalents

	2019 RO '000	2018 RO '000
Bank current accounts	7,937	4,961
Cash in hand	10	12
	7,947	4,973

11 Statutory deposit

The Company is required to maintain capital deposit of RO 250,000 with the Central Bank of Oman (CBO) in accordance with the applicable licensing requirements. During the year, the deposit earned effective interest at the rate of 1.5% per annum (2018-1.5%).

12 Net investment in finance leases, working capital finance and factoring receivables.

	2019 RO '000	2018 RO '000
Gross investment in finance leases	**516,164**	524,881
Working capital finance and factoring receivables	**45,755**	20,796
Unearned lease income	**(99,524)**	(96,946)
	462,395	448,731
Provision for impairment of lease receivable, working capital finance and factoring receivables	**(30,186)**	(25,067)
Unrecognized contractual income*	**(5,563)**	(4,024)
Net investment in financing activities	**426,646**	419,640

*Unrecognised contractual income is part of ECL as per IFRS 9.

(a) Unearned lease income:

	2019 RO '000	2018 RO '000
1 January	**96,946**	35,703
Transfer from former OOLC	**-**	46,397
Additions during the year	**44,384**	54,376
Recognized during the year	**(41,806)**	(39,530)
31 December	**99,524**	96,946

(b) Provision for impairment of lease receivables:

	2019 RO '000	2018 RO '000
1 January	**25,067**	11,385
Transfer from former OOLC	**-**	11,847
Provided during the year	**18,011**	12,250
Released during the year	**(11,531)**	(10,415)
Written off during the year	**(1,361)**	-
31 December	**30,186**	25,067

(c) Unrecognized contractual income:

	2019 RO '000	2018 RO '000
1 January	**4,024**	1,224
Transfer from former OOLC	**-**	674
Additions during the year	**2,727**	3,453
Recognized during the year	**(925)**	(1,327)
Written off during the year	**(263)**	-
31 December	**5,563**	4,024

(d) The current and non-current amounts are disclosed in note 29 to these financial statements.

12 Net investment in finance leases, working capital finance and factoring receivables (continued)

(e) The table below represents analysis of investment in finance leases, working capital finance and factoring receivables (gross and present value) for each of the following periods:

	Up to 1 month RO'000	>1 month to 1 year RO'000	> 1 year RO'000	Total RO'000
31 December 2019				
Gross	14,847	149,844	397,228	561,919
Present value	11,117	114,591	336,687	462,395
31 December 2018				
Gross	14,867	148,675	382,135	545,677
Present value	11,284	115,063	322,384	448,731

13 Property and equipment

	Freehold land RO '000	Buildings RO '000	Furniture, fixtures and equipment RO '000	Motor vehicles RO '000	Capital WIP RO '000	Right to use asset RO '000	Total RO '000
At 31 December 2019							
Cost or valuation							
At 1 January 2019	955	600	3,588	270	3,411	-	8,824
Additions	-	-	291	-	609	268	1,168
Disposals	-	-	-	-	-	-	-
At 31 December 2019	955	600	3,879	270	4,020	268	9,992
Accumulated depreciation							
At 1 January 2019	-	416	2,566	51	-	-	3,033
Charge for the year	-	32	438	75	-	86	631
Disposals	-	-	-	-	-	-	-
At 31 December 2019	-	448	3,004	126	-	86	3,664
Net book value At 31 December 2019	955	152	875	144	4,020	182	6,328

	Freehold land RO '000	Buildings RO '000	Furniture, fixtures and equipment RO '000	Motor vehicles RO '000	Capital WIP RO '000	Right to use asset RO '000	Total RO '000
At 31 December 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	-	-	603	198	3,411	-	4,212
Disposals	-	-	(1)	(301)	-	-	(302)
At 31 December 2018	955	600	3,588	270	3,411	-	8,824
Accumulated depreciation							
At 1 January 2018	-	383	1,496	68	-	-	1,947
On assets transferred from former OOLC	-	-	703	100	-	-	803
Charge for the year	-	33	368	113	-	-	514
Disposals	-	-	(1)	(230)	-	-	(231)
At 31 December 2018	-	416	2,566	51	-	-	3,033
Net book value At 31 December 2018	955	184	1,022	219	3,411	-	5,791

13 Property and equipment (continued)

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 RO 0.020 million. (31 December 2018- RO 0.020 million).

The Company has purchased and incurred an amount of RO 4.02 million (31 December 2018 – RO 3.41 million) for the office space in Muscat. Design and fit-out work for the office space is under progress.

14 Share capital

The authorised share capital of the Company comprises 750,000,000 ordinary shares of Baizas 100 each (2018 - 750,000,000 ordinary share of Baizas 100 each). The Company's issued and fully paid-up share capital amounts to 541,230,454 shares of Baizas 100 each. (2018 - 503,964,075 ordinary shares and bonus shares under allotment of 13,959,805 shares of Baizas 100 each).

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

	2019 Number of shares held	%	2018 Number of shares held	%
Oman International Development and Investment Company SAOG	**187,284,489**	**34.60**	174,389,031	34.60
Al Hilal Investment Co. LLC	**159,292,725**	**29.43**	148,324,643	29.43

15 Legal reserve

In accordance with article 106 of the Commercial Companies Law of Oman of 2019, 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 bonds

The Company issued 8% perpetual bonds for RO 18.200 million through private placement in 2018 for payment of purchase consideration to OOLC shareholders which are mentioned at net of bond issue expenses of RO 0.131 million.

17 Creditors and accruals

	2019 RO '000	2018 RO '000
Creditors	**2,383**	4,325
Accruals and other liabilities	**2,755**	6,965
Dividend payable	**-**	2,792
	5,138	14,082

18 End of service benefits

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

	2019 RO '000	2018 RO '000
1 January	**722**	424
Transfer from former OOLC	**-**	262
Expenditure recognized in the statement of comprehensive income (note 7)	**143**	313
Payments during the year	**(154)**	(277)
31 December	**711**	722

19 Bank borrowings

	2019 RO '000	2018 RO '000
Bank overdraft	**541**	1,253
Short-term loans	**123,850**	105,898
Current portion of long term loans	**115,637**	124,730
Long-term loans	**79,995**	65,909
	320,023	297,790

a. During the year, interest was charged on the above borrowings at rates ranging between 4.00% and 6.25% per annum (31 December 2018-3.25% and 5.50% per annum).

b. At the reporting date, all outstanding borrowings were secured by a first priority pari-passu floating charge on the assets of the Company, including but not limited to the Company's receivables from its customers.

c. Foreign currency forward contracts
As at 31 December 2019, the notional amount of foreign currency forward contract amounted to RO 84.69 million [USD 220.18 million] (31 December 2018 - RO 25.37 M [USD 65.94 M]) to repay US Dollar term loans.

20 Fixed deposits

At 31 December 2019, the Company has accepted fixed deposits from corporate entities based in Oman for a total amount of RO 17.01 million, (31 December 2018 - RO 23.90 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 4.00% and 5.30% per annum (31 December 2018 – 3.75% to 5.10% per annum). The carrying amount includes interest accrued till the end of the year.

21 Proposed and approved dividends

Proposed

The Board of Directors at the forthcoming Annual General Meeting propose a cash dividend of 11.08% on the shares outstanding on the record date. The cash dividend is expected to amount of RO 6,000,000. These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year of approval. The cash dividend paid for 2018 amounted to RO 4,143,391 and stock dividend issued amounted to RO 2,330,657 (23,306,575 shares).

The Cash dividend for 2017 amounted to RO 2,791,815 and stock dividend amounted to RO 1,395,980 (13,959,805 shares) approved by Muscat Clearing and Depository (MCD) on 03 January 2019 was distributed during the year.

22 Cash and cash equivalents

	2019 RO '000	2018 RO '000
Bank overdrafts - (note 19)	**(541)**	(1,253)
Cash and cash equivalents – (note 10)	**7,947**	4,973
	7,406	3,720

22 Cash and cash equivalents (continued)

Change in cash flows from financing activities (Principal)

Particulars	2019 Cash flow from bank borrowings RO '000	2019 Cash flow from fixed deposits RO '000	2018 Cash flow from bank borrowings RO '000	2018 Cash flow from fixed deposits RO '000
1 January	295,272	22,949	128,110	21,064
Balance transferred from OOLC	-	-	149,235	8,250
Additions during the year	515,894	8,723	252,647	6,110
Repayments during the year	(492,548)	(15,164)	(234,720)	(12,475)
31 December	318,618	16,508	295,272	22,949
Change in cash flows	23,346	(6,441)	17,927	(6,365)

23 Commitments

	2019 RO '000	2018 RO '000
Approved lease commitments (refer 'a')	8,124	7,423
Operating lease in respect of rentals of branches (short term leases) (refer 'b')	147	220
	8,271	7,643

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

b) The operating lease pertain to the approved rentals to be paid in the future for the respective branches.

24 Contingencies

	2019 RO '000	2018 RO '000
Bank guarantees	788	788

In its ordinary course of business, the Company has arranged for bank guarantees in favour of its customers from banks in Oman maturing during 2020 and 2021.

25 Related party transactions and balances

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

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

	2019 RO '000	2018 RO '000
General and administrative expenses	2	2
Sales incentive paid	51	66
Purchase of property and equipment	-	3,609
Sale of property and equipment	-	38
Directors' fees and remuneration		
Directors' sitting fees and proposed remuneration (note 7)	200	200
Remuneration to key members of management during the year		
Salaries and other benefits	881	844

At 31 December, the following balances were payable to related parties:

	2019 RO '000	2018 RO '000
Sales incentive payable	16	32

26 Assets held for sale

Assets held for sale represents land acquired by the Company in part settlement of amounts due by borrower following the conclusion of all credit recovery procedures available to the Company. This property was valued in September 2019 at RO 1.50 million and expected to be sold in the year 2020.

27 Foreign currency reserve

In accordance with the CBO circular FM 11, the finance leasing Companies are required to create an exchange reserve of 20% in case when the foreign currency borrowings exceed 40% of the net worth of the Company. 10% of the reserve is required to be created at the end of the year of borrowing and 2.5% each in subsequent years.

28 Voluntary reserve

In addition to the existing reserve for Non-performing assets, as resolved by the Board of Directors in their meeting held on 29 January 2020, out of the current retained earnings an amount of RO. 3 million has been transferred to Voluntary reserve for non-performing assets to meet out any contingencies for the year 2019. This reserve is non distributable and transfer out of this reserve require approval of Board of Directors.

29 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

2019	**Amortized cost RO'000**
Financial assets (not measured at fair value)	
Cash and cash equivalents	**7,947**
Net investment in finance leases	**389,384**
Working capital finance and factoring receivables	**37,262**
Other receivables	**1,473**
Statutory deposit	**250**
Total financial assets	**436,316**

2019	**Amortized cost RO'000**
Financial liabilities	
Bank overdrafts and short-term loans	**124,391**
Creditors and accruals	**5,138**
Corporate deposits	**17,009**
Long term loans	**195,632**
Total financial liabilities	**342,170**

2018	Amortized cost RO'000
Financial assets	
Cash and cash equivalents	4,973
Net investment in finance leases	401,634
Working capital finance and factoring receivables	18,006
Other receivables	1,278
Statutory deposit	250
Total financial assets	426,141

2018	Amortized cost RO'000
Financial liabilities	
Bank overdrafts and short-term loans	107,151
Creditors and accruals	14,082
Corporate deposits	23,896
Long term loans	190,639
Total financial liabilities	335,768

30 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 at the carrying amount.

At 31 December 2019	Up to 1 month RO '000	> 1 month to 1 year RO '000	> 1 year RO '000	Non-fixed maturity RO '000	Total RO '000
Assets					
Cash and cash equivalents	7,947	-	-	-	7,947
Statutory deposit	-	-	-	250	250
Net investment in finance leases, working capital & factoring receivables	10,561	115,519	300,566	-	426,646
Advances and prepayments	-	3,403	-	-	3,403
Assets held for sale	-	1,500	-	-	1,500
Deferred tax asset	-	-	-	-	-
Goodwill	-	-	-	5,950	5,950
Intangible asset	-	-	-	1,280	1,280
Property and equipment	-	-	-	6,328	6,328
Total assets	18,508	120,422	300,566	13,808	453,304
Equity and liabilities					
Total equity	-	-	-	108,112	108,112
Liabilities:					
Bank borrowings and fixed deposits	37,363	213,520	86,149	-	337,032
Creditors and accruals	2,383	2,755	-	-	5,138
End of service benefits	-	-	-	711	711
Tax liabilities	-	2,007	-	304	2,311
Total equity and liabilities	39,746	218,282	86,149	109,127	453,304
Liquidity gap	(21,238)	(97,860)	214,417	(95,319)	
Cumulative liquidity gap	(21,238)	(119,098)	95,319	-	

At 31 December 2018	Up to 1 month RO '000	> 1 month to 1 year RO '000	> 1 year RO '000	Non-fixed maturity RO '000	Total RO '000
Assets					
Cash and cash equivalents	4,973	-	-	-	4,973
Statutory deposit	-	-	-	250	250
Net investment in finance leases, working capital & factoring receivables	11,355	111,209	297,076	-	419,640
Advances and prepayments	-	3,187	-	-	3,187
Deferred tax asset	-	-	-	410	410
Goodwill	-	-	-	6,206	6,206
Intangible asset	-	-	-	1,537	1,537
Property and equipment	-	-	-	5,791	5,791
Total assets	16,328	114,396	297,076	14,194	441,994
Equity and Liabilities					
Equity	-	-	-	103,694	103,694
Liabilities					
Bank borrowings and fixed deposit	60,357	192,542	68,787	-	321,686
Creditors and accruals	2,792	11,290	-	-	14,082
End of service benefits	-	-	-	722	722
Tax liabilities	-	1,810	-	-	1,810
Total equity and liabilities	63,149	205,642	68,787	104,416	441,994
Liquidity gap	(46,821)	(91,246)	228,289	(90,222)	
Cumulative liquidity gap	(46,821)	(138,067)	90,222	-	

30 Maturity analysis of assets and liabilities (continued)

The Company had unutilized credit facilities amounting to RO 44.8 million available as on 31 December 2019 (31 December 2018 – RO 113.1 million) to mitigate the impact of negative mismatch. The Company expects, given experience, local practice and discussions with lenders that short-term borrowing facilities will be extended, renewed or replaced on expiry and fixed deposits maturing within one year will be renewed if required as well as other measures to meet the gap in maturity. Accordingly, management has prepared these financials on going concern basis.

31 Effective interest rate analysis of financial assets and financial liabilities

Interest rate sensitivity analysis

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

At 31 December 2019	Effective interest rate	Up to 1 month	> 1 month to 1 year	> 1 year	Non-fixed maturity	Non-interest bearing	Total
	%	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Assets							
Cash and cash equivalents		-	-	-	-	7,947	7,947
Statutory deposit	1.5%	-	-	-	250	-	250
Net investment in finance leases, working capital & factoring receivables	6.5%-17%	10,561	115,519	300,566	-	-	426,646
Total assets		10,561	115,519	300,566	250	7,947	434,843
Liabilities							
Bank borrowings and fixed deposits	4%-6.25%	37,363	213,520	86,149	-	-	337,032
Creditors and accruals		-	-	-	-	5,138	5,138
Total liabilities		37,363	213,520	86,149	-	5,138	342,170
Interest rate sensitivity gap		(26,802)	(98,001)	214,417	250	2,809	92,673
Cumulative interest rate sensitivity gap		(26,802)	(124,803)	89,614	89,864	92,673	

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

31 December 2018	Effective interest rate %	Up to 1 month RO '000	> 1 month to 1 year RO '000	> 1 year RO '000	Non-fixed maturity RO '000	Non-interest bearing RO '000	Total RO '000
Assets							
Cash and cash equivalents		-	-	-	-	4,973	4,973
Statutory deposit	1.5%	-	-	-	250	-	250
Net investment in finance leases, working capital & factoring receivables	6.5% - 17%	11,355	111,209	297,076	-	-	419,640
Total assets		11,355	111,209	297,076	250	4,973	424,863
Liabilities							
Bank borrowings and fixed deposits	3.25%-5.5%	60,357	192,542	68,787	-	-	321,686
Creditors and accruals		-	-	-	-	14,082	14,082
Total liabilities		60,357	192,542	6 8,787	-	14,082	335,768
Interest rate sensitivity gap		(49,002)	(81,333)	228,289	250	(9,109)	89,095
Cumulative interest rate sensitivity gap		(49,002)	(130,355)	97,954	98,204	89,095	

32 Corresponding figures

Certain corresponding figures have been reclassified to conform to the presentation adopted in the current year financial statements and are disclosed below. Such reclassifications do not impact the Company's previously reported profit or equity.

	As stated currently 2018 RO '000	As stated previously 2018 RO '000
Creditors and accruals (note 17)	14,082	13,854
End of service benefits (note 18)	722	950
	14,804	14,804

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