الوطنية للتمويل

National Finance

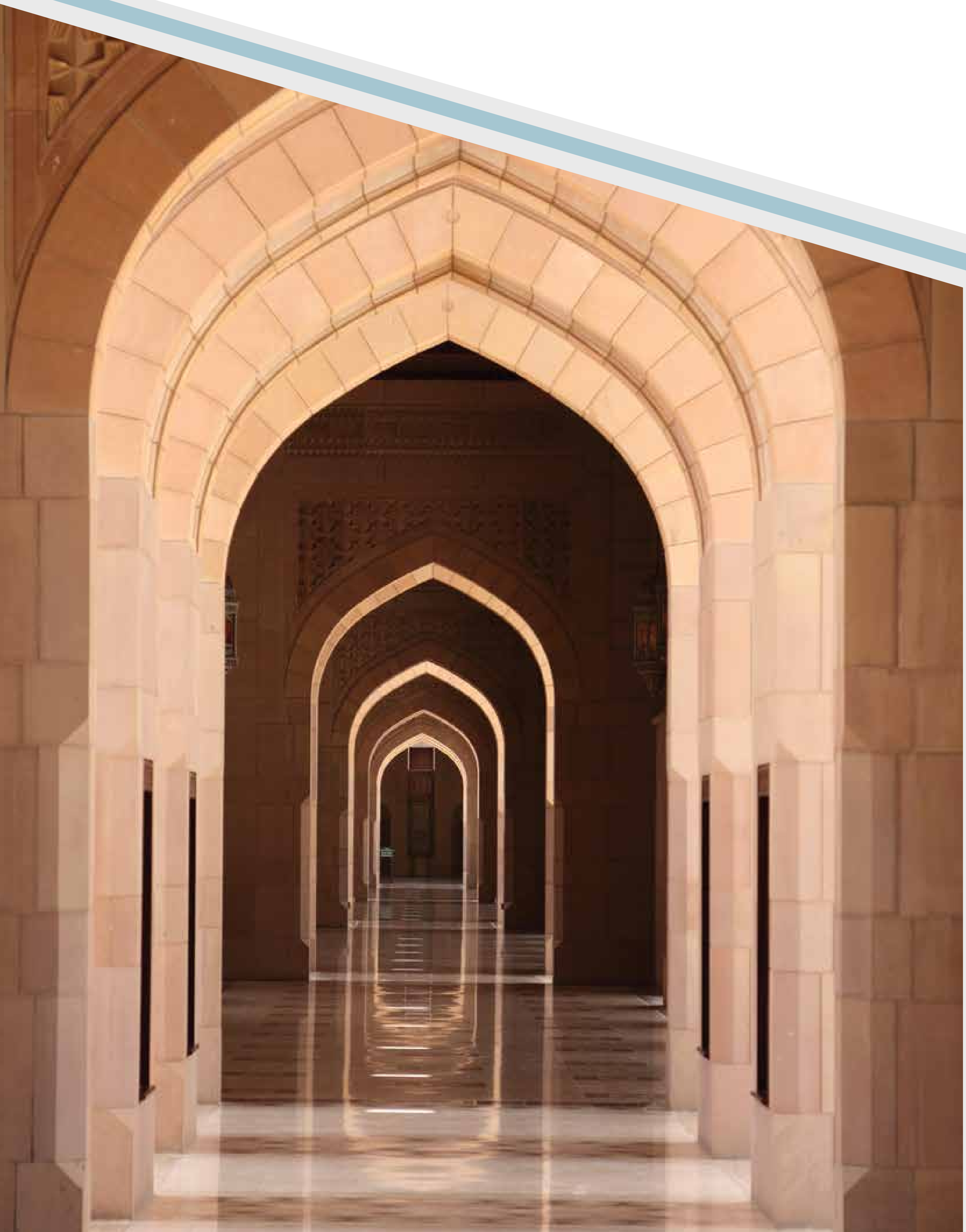
ANNUAL REPORT 2020

PARTNERS IN PROGRESS

HIS MAJESTY
SULTAN HAITHAM BIN TARIK

"Nation building and development are a public responsibility that requires the commitment of all, without exempting any one from their role, in their respective specialties, and within their capabilities."

Excerpt from the Royal Speech by
HM Sultan Haitham bin Tarik in February 2020



CONTENTS

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Taya Jandal Ali
Chairman (1)

Hani Al Zubair
Deputy Chairman (1)

Pramod G. Karajgikar
Director (2)

AbdulAziz Al Balushi
Director (1) (3)

Sanjay Kawatra
Director (3)

Muhammad Husam Al Zubair
Director (1)

Dr. Rashid Al Balushi
Director (3)

Subrata Kumar Mitra
Director (2) (3)

Dr. Dhafir Al Shanfari
Director (2)

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

DIRECTORS' REPORT

On behalf of the Board of Directors, we are pleased to present to you the results of the company for the year end December 31, 2020.

We started the year in line with our approved business strategy until the COVID-19 pandemic disrupted the economy. As the COVID-19 pandemic spread across the world there has been a huge impact on the economy and several sectors have seen substantial slowdown. In this period of uncertainty, we responded dynamically to the situation to protect our people and customers. The health and safety of our employees and customers was our priority. We ramped up our communication to ensure we keep our people informed both internally and externally with the latest updates on critical information across all touchpoints. We also supported our customers who were impacted by COVID-19 with options to defer repayments or reschedule their finance deals.

The FY 2021 Oman budget represents the first year of the Tenth Five-Year Development Plan (2021-2025) and is the first step towards the Oman Vision 2040 development objectives. It has been prepared to address challenges faced by the country due to the COVID-19 pandemic and its associated implications.

The Budget 2021 has forecast a growth of 2.3% for the economy aiming to increase revenues, reduce public spending and work towards achieving financial sustainability. The Budget 2021 reflects the Government's confidence in its economic diversification programs, as revenue budgeted from non-oil sources consists of about 37% of its overall estimated revenue for FY21 as against actual revenue of 28% in year 2020. 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 augurs well for growth in capital investment.

DIRECTORS' REPORT

Our Company has a well-diversified geographical presence across Oman (20 locations), coupled with a broad product profile and we are well positioned to meet the financing requirements of both the Retail and SME segments. We anticipate slower credit offtake in the medium term with a need to balance credit risk with market growth. We aim to continue to strengthen our market leadership position in Oman while offering our customers an optimal experience.

Our 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 offtake in the medium term and overall, our reading is that the economic climate will continue to remain challenging.

Our total regulatory capital of RO 109 million is the highest among FLCs and gives us a strong base on which to build our business. Our company remains the largest finance and leasing company in the Sultanate in terms of asset size, branch network, revenues and profit.

During the year 2020, the company adopted conservative underwriting measures with focus on writing good quality business with improved margins. Our operating profit (profit before provision and tax) was at RO 15.3 million (RO 17.7 million in 2019) while total earning assets was at RO 402.3 million (RO 426.7 million in 2019). Profit after tax was RO 8.0 million as compared to RO 10.0 million in 2019. The decline from 2019 profit of RO 10.0 million was primarily due to higher borrowing costs, lower business originations and continued pragmatic provisioning.

The company is in full compliance with the provisioning norms prescribed by the Central Bank of Oman and the International Financial Reporting Standards and holds an additional overlay over the IFRS9 requirement as a buffer given incremental risk in the portfolio due to COVID-19. The digital platform continues to play a pivotal role in our core business, and we are constantly aiming to meet our customer's growing demand and expectations. As a result, we have launched our e-Channels which enhance our customers' experience. We will continue to strive to improve our technological platform to be aligned with the digital transformation happening across the world and provide solutions that deliver best in class customer experience.

The projected lower levels of credit offtake combined with increased interest costs will make it challenging to sustain current profitability levels. However, our 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 6% dividend in cash. This dividend will be paid on the shares outstanding on the recorded date.

Our 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.

National Finance has been supporting numerous CSR initiatives to reinforce and maximize its contribution to society. During the year 2020, the company has contributed RO 175,000 to the Endowment Fund to support the health services towards the fight of COVID-19 in Oman as a part of the CSR initiatives.

The company remains committed to Omanisation and as of December 31, 2020, the number of Omani employees was 271 out of the total workforce of 312. The Omanisation percentage works out to 86.86%, which is higher than the given target of 80%. Your Company continues to remain committed to providing career growth and development of Omani nationals through ongoing training in line with their job requirement. We will continue to maintain momentum on employee engagement initiatives, development of future skills, managerial and leadership capabilities for professional development.

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

National Finance Co. SAOG ('National Finance' or 'the Company') was established in November 1987 and has now completed 33 years of operations. Throughout the years, the Company has succeeded by helping customers meet their aspirations and financial needs. The Company's main business objective is to be the preferred provider of financial products and services in the Sultanate of Oman targeting both individual customers and Small and Medium Enterprises (SMEs). The Company's Corporate Head Office is based at Airport Heights and continues to serve its customers from its twenty locations spread across the country. As a public joint stock company regulated by the Central Bank of Oman, the Company's business operations are subject to compliance with the regulatory and statutory guidelines of the Central Bank of Oman, the Capital Market Authority, the Company's own manual of authority & procedures and the legal statutes of the Sultanate of Oman.

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

Domestic Economy

The FY 2021 Oman Budget represents the first year of the Tenth Five-Year Development Plan (2021-2025) towards Oman Vision 2040. It aims to promote sustainable development and stimulate economic activity by endeavoring to support and build on its core economic diversification sectors and strives to give due importance to national priorities and fiscal sustainability.

Further, with a view to overcome challenges in the economy as a consequence of the COVID pandemic, the Government had introduced several initiatives in 2020 and is expected to continue such steps through 2021.

The Government of Oman has budgeted a GDP growth of over 2.3% in year 2021 keeping in mind its objectives of fiscal sustainability, diversified economy, participation of private sectors in development projects and creating more job opportunities.

There is continued focus on the need to enhance the contribution of non-oil revenue and the Government acknowledges that revenues from non-oil sectors depend significantly on private sector investment, and is committed to improving the business environment to facilitate this. The Sultanate's economy has taken proactive measures to ensure positive development, despite the significant challenges in the oil market including a sudden fall in demand, and consequently the prices of its largest revenue generating asset.

The estimated deficit for 2021 is RO 2.20 billion translating to 8% of the GDP whereas the actual deficit for 2020 was around RO 4.20 billion. The economy is still highly reliant on oil revenue and increase in oil prices will aid reduction of fiscal deficits.

Industry Overview

The Leasing and Finance sector experienced de-growth during 2020 on account of marked increase in cost of funds and a slowdown in both the Government and private sectors due to the COVID-19 pandemic effect. Almost all the major sectors viz. Oil & Gas, Infrastructure, Construction and Services have witnessed sharp decline in credit offtake due to dearth of new projects.

While the Government has announced several initiatives to meet the overall objective of diversification of revenue streams, efficiencies in public spending such as introduction of 5% VAT on select goods and services, increased corporate tax scrutiny and collection procedures, we do expect further increase in the borrowing rates in the medium term on account of the 2021 budget deficit and liquidity tightening.

Business Structure

Your Company is one of the premier diversified non-banking finance companies in Oman engaged in providing vehicle finance and loans to SMEs. 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 workforce. 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:

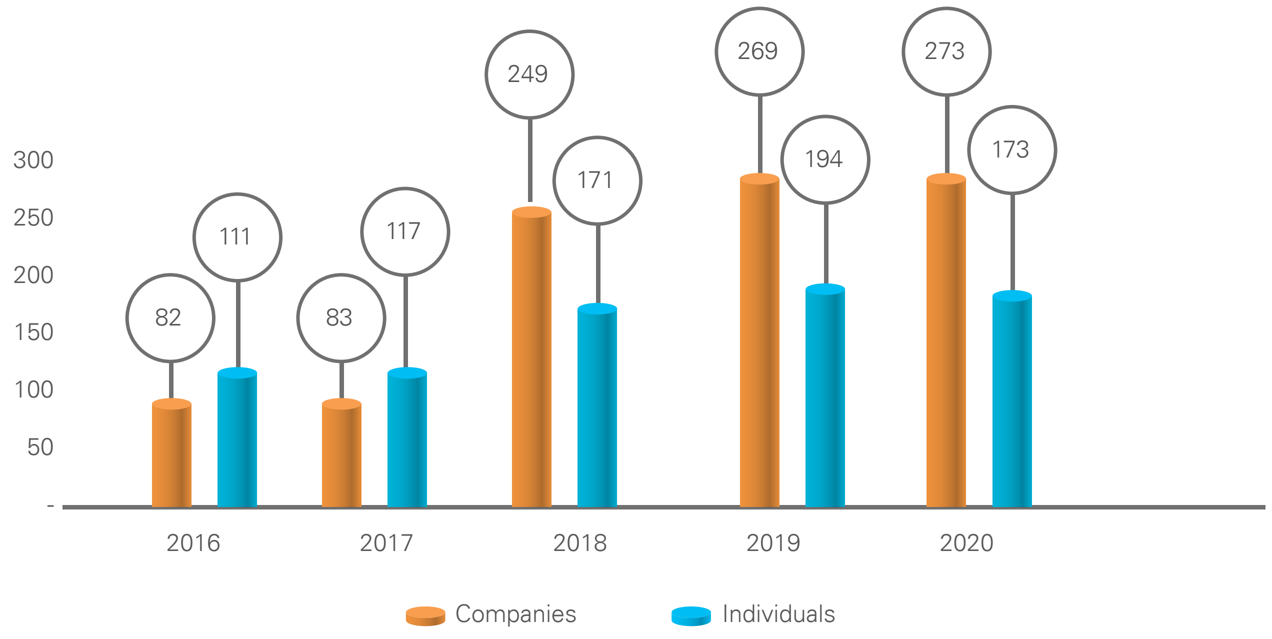
- To lend money at spreads sufficient to maintain appropriate return for the risk undertaken
- To maintain efficient operating platforms and infrastructure in order to run the business at competitive cost levels
- To originate quality new business at optimal cost through multiple customer acquisition channels
- To minimize the credit losses by proper evaluation of the creditworthiness of the customers, both during approval stage and post-disbursal collections
- 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 dealers as well as direct customer relationships, while in the SME market the business is more focused on direct marketing. Our approach in SME has been to restrict our target to lower risk customers.

Investment in Lease Finance (RO Million)

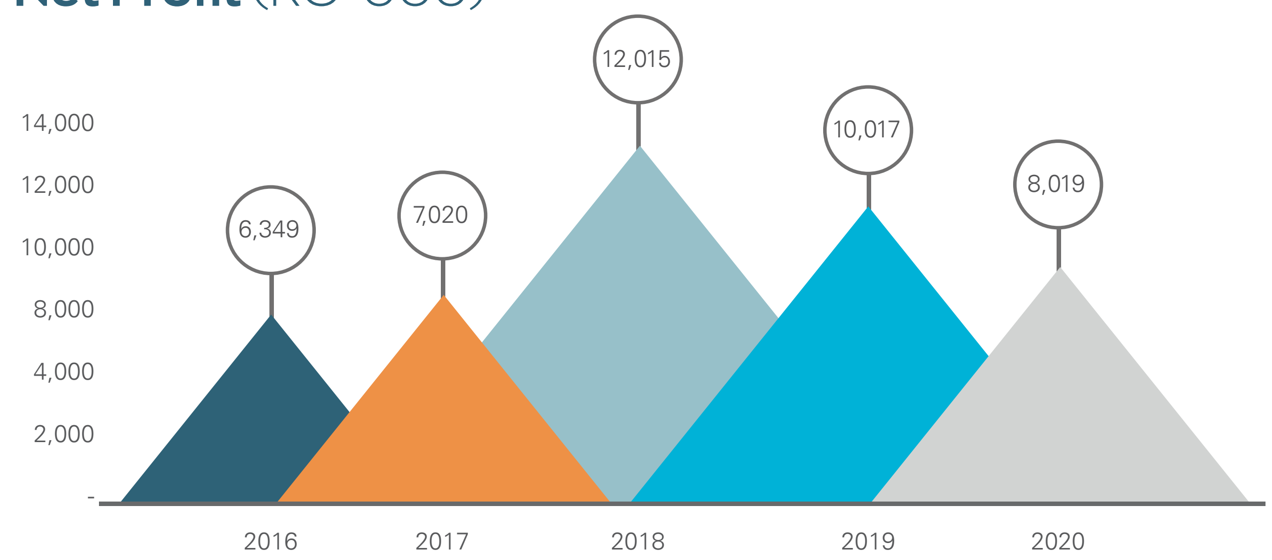


Operational Performance

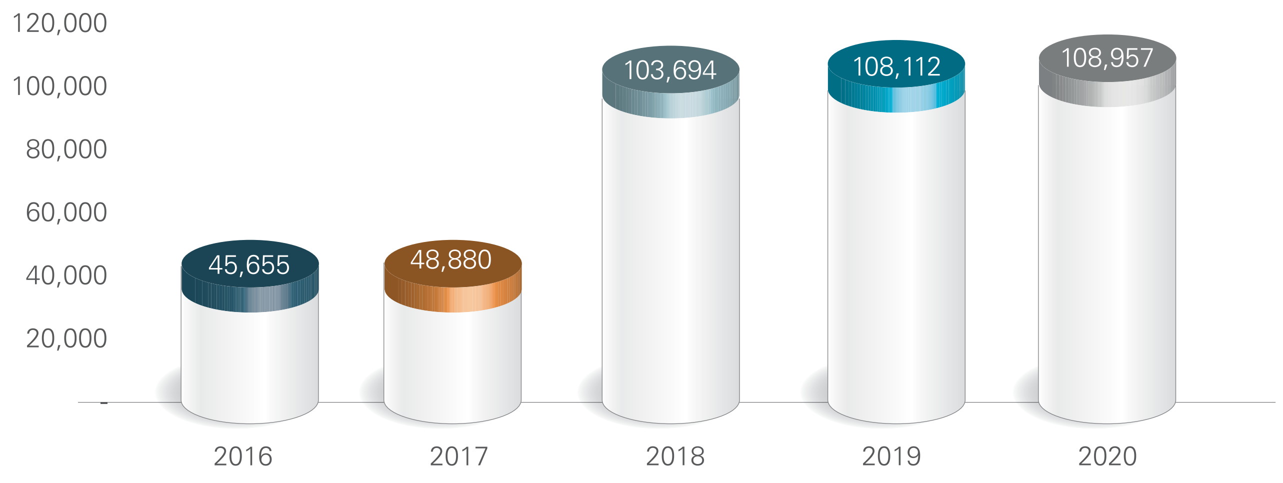
Overall summary of performance for the year is as follows:

1. Income from financing activities amounted to RO 40.97 million.
2. Interest cost amounted to RO 17.86 million in 2020.
3. Operating income amounted to RO 15.24 million.
4. General and administrative expenses amounted to RO 10.82 million.
5. Profit after tax for the current year amounted to RO 8.02 million.

Net Profit (RO '000)



Shareholder´s Funds (RO '000)



Funding Profile

Our gearing is at a level of 2.77 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 2020 amounted to RO 281.79 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 2020, the Company carried corporate fixed deposits totaling to RO 24.83 million.

Human Resources

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 2020, there were 312 employees of the Company of whom 271 employees were Omani nationals. The Omanisation ratio was at 86.86% which is higher than the statutory target of 80%.

Information Technology

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:
1. Adoption of standardized operating procedures;
2. 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 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 to reduce 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 of 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 & Risk Management Committee of the Board of Directors. The Audit & Risk Management 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

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.

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

Robert Pancras
Chief Executive Officer

REPORT OF FACTUAL FINDINGS
TO THE SHAREHOLDERS

pwc

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

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular no. 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 2020 and application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. 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 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist the Board of Directors of the Company in complying with the requirements of the Code issued by the CMA.

3. We have performed the following procedures:

   (a) We have checked that the corporate governance report issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3; and

   (b) We have obtained the details of the Company's compliance with the Code, including any non-compliances 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 or/and a checklist prepared by the Board of Directors to identify any non-compliance.

4. As a result of performing the above procedures, we have no exceptions to report.

5. Because the above procedures do not constitute either an audit performed in accordance with International Standards on Auditing or a review in accordance with 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 paragraph 2 above 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 its annual report for the year ended 31 December 2020 and does not extend to any financial statements of National Finance Company SAOG taken as a whole.

برايس وترهاوس كوبرز ش م م
س ت : ١٢٣٠٨٦٥
C.R. No 1230865
PricewaterhouseCoopers LLC

Muscat, Sultanate of Oman
15 March 2021

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

Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865, Tax Card No 8055889

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 at 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 June 4, 2020 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 viz. Mr. AbdulAziz Al Balushi and Mr. Muhammad Husam Al Zubair, 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, General Manager – Support and Deputy General Manager – HR & Administration. The CEO and all the 3 General Managers are part of the Management Committee of the Company. All the General Managers and Deputy General Manager report 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 Collections, Risk and Compliance, General Manager – Support is responsible for Finance, Operations and Support functions, and Deputy General Manager – HR & Administration is responsible for all the HR and Administrative functions of the Company.

Board Meetings

During the year 2020, six board meetings were held as listed below:

Meeting No.	Board Meeting Dates
1/2020	January 29, 2020
2/2020	April 30, 2020
3/2020	June 4, 2020
4/2020	July 29, 2020
5/2020	October 26, 2020
6/2020	December 21, 2020

The maximum interval between any two meetings was 92 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 is the Chairman of the Nomination, Remuneration and Executive Committee. 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' Degree 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. Furthermore, he holds the positions of Chairman in the Fund for Development of Youth Projects SAOC (Sharakah), Vice-Chairman of the Board of NCAT (National College of Automotive Technology) and Vice-Chairman of the Board of Alizz Islamic Bank SAOC.

Mr. Pramod G. Karajgikar has been the Director of National Finance since 2002 and Member of the Audit Committee since 2003. Since 2013, he is also the Chairman of the Audit Committee. He also holds the position of Director in Muscat Insurance Co. SAOG. 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 38 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).

Mr. AbdulAziz Mohammed Al Balushi has been a Director since March 2014, Chairman of the Risk Committee and member of the Nomination, Remuneration and Executive Committee. He is a Group CEO of Oman International Development and Investment Company SAOG (OMINVEST) since January 2014. With experience of more than 35 years, he has extensive in-depth knowledge of global financial services industry. At OMINVEST, Mr. AbdulAziz was the key driver behind the merger of OMINVEST and ONIC Holding, which has created the largest publicly listed investment company in Oman. Before joining OMINVEST, Mr. 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. Mr. AbdulAziz started his career with Oman International Bank and prior to joining Ahlibank, he was Deputy CEO of National Bank of Oman.

Mr. AbdulAziz holds a Master of Science Degree in Finance from the University of Strathclyde (UK) and a Fellow of Chartered Institute of Bankers (UK). Mr. AbdulAziz is the Chairman of Board of Directors at Oman Real Estate Investments and Services SAOC. He is also Deputy Chairman of Jabreen Capital and Salalah Resorts SAOC and Board member of National Life and General Insurance SAOG and Oman Arab Bank SAOG.

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

Sanjay has 20-plus years of solid 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.

Sanjay currently serves as Group President – Regional Business and Chief Operating Officer of OMINVEST Group. He is responsible for managing OMINVEST's Group regional investments. 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 IPOs, mergers and acquisitions, restructuring, divestments, PPP, corporate governance, performance improvement, valuation, assurance and cross border fundraising transactions.

Sanjay has served as an advisor to several regulatory committees in Oman. He is an active presenter in business forums and contributes articles to business magazines. He is also a Board member of several companies including public listed and regulated companies such as Al Izz Bank SAOC and Takaful Oman Insurance SAOG.

He holds a Bachelor of Commerce and is a Member of the Institute of Chartered Accountants of India.

Mr. Muhammad Husam Al Zubair has been appointed as Director and member of the Nomination, Remuneration and Executive Committee since June 2020.

Muhammad is an Associate at East Lane Partners (under formation), a private equity investment manager focused on North Africa, since 2020, working on transactions in healthcare, education and industrials.

Prior to joining the firm, Muhammad was an Analyst in the Private Equity Team at NBK Capital Partners between 2018 and 2020. He worked on transactions in the Middle East and North Africa region in healthcare, food and beverage and internet businesses.

Prior to joining NBK Capital Partners in 2018, Muhammad worked as an Analyst at the Abraaj Group in the Middle East Private Equity team based in Dubai, where he focused on the education and healthcare sectors and the Credit team based in London, where he worked on transactions in the oil and gas and telecom sectors.

Muhammad holds a Bachelor in Business Administration with a concentration in Accounting and a minor in Economics from Northeastern University in Boston.

Dr. Rashid Ali Ibrahim Al Balushi has been appointed as Director and member of the Risk Committee since June 2020.

Dr. Rashid has 26 years of solid experience in investment & financial management of strategic projects and development of companies with solid leadership skills.

Dr. Rashid currently serves as the Managing Director of Iskan Oman Investment Company SAOC, a private equity investment company that was established in 2008. Earlier he was Chief Investment Officer in Oman Investment Corporation SAOC and before that he worked in Omantel as Head of Corporate Development. His career started back in 1994 after graduating from University of Louisiana with a Bachelor of Science in Civil Engineering at Muscat Municipality as Structure Engineer then moved up to Director of Projects & Maintenance.

Dr Rashid has served in Boards of several Government and private bodies.

In addition to his BSc. Civil Engineering, he holds MSc. Construction Management & PhD in Strategic Project Management from UK. He is a certified Project Management Professional.

Mr. Subrata Kumar Mitra has been appointed as Director and member of the Audit Committee since August 2020 and Risk Committee since December 2020.

Mr. Mitra has over 24 years of investment experience across asset classes that include alternative investments such as private equity (PE) and private credit, venture capital, impact funds, hedge-funds, fund of funds; in addition, he also has substantial experience in trading securities such as stocks, bonds and commodities; derivatives/structured notes, ETFs, and mutual funds. He has PE transaction experience in a broad range of industries in several Middle Eastern and Asian countries. Mr. Mitra worked for major multi-lateral and multinational organizations that include International Finance Corporation (IFC), World Bank, Royal Dutch/Shell and Global Investment House-Kuwait. Closed/managed direct investment of over US$1 billion; and managed a private equity fund of US$500 million (NAV) listed on the Main Market of London Stock Exchange (led the launching and listing of the fund in 2008). He is experienced in establishing/management of PE funds and strategic asset allocation for multi-asset portfolios.

Mr. Mitra's experience in the manufacturing and services sectors includes: life science, photovoltaics, IT, hospitality, cement, automobile, steel, paper, packaging, fiberglass, and education. In the financial services sector: conventional and Islamic banks, insurance, leasing, housing finance, consumer finance, trade finance, development finance and impact investing.

He held several senior management positions and board membership of listed and unlisted companies in financial (includes an Islamic bank of Malaysia promoted by Qatar Islamic Bank) and manufacturing sectors of several countries. Mr. Mitra has a Master of Science in Risk Management from the NYU Stern School of Business, New York University, USA; an MBA in Finance from the Institute of Business Administration (IBA), Dhaka University, Bangladesh; and a Masters in Accounting (with Honors) from Dhaka University, Bangladesh.

Dr. Dhafir Awadh Badar Al-Shanfari has been appointed as Director and member of the Audit Committee since December 2020.

Dr. Dhafir Al-Shanfari is the Chief Executive Officer of the Public Authority for Privatisation and Partnership (PAPP) that was established in July 2019 to oversee and manage the Privatisation Programme, the Public-Private Partnership (PPP) Programme, and the Tawazun Programme known globally as "Offset". He was also the Acting Chief Executive Officer of the Competition Protection and Monopoly Prevention Centre.

Dr. Al Shanfari completed his PhD at the Deakin University, Australia in 2011 and holds an MBA from Duquesne University U.S.A. Prior to his appointment as CEO of the Public Authority for Privatisation and Partnership (PAPP), Dr. Al Shanfari was the CEO of Omani Authority for Partnership for Development (OAPFD). Prior to that, he was Head of the Management Department at the College of Economics and Political Science, Sultan Qaboos University and is the first Omani academic to specialize in entrepreneurship policy. He was also the Co-Director of the Academic Innovation Assistance Program (AIAP), a joint TRC-SQU programme aimed at fostering innovation at higher education institutions in Oman.

Dr. Al Shanfari also chairs and is a member of various Boards & Committees in the Sultanate such as Deputy Chairman of the Oman Aviation Academy Board, Deputy Chairman of the Competition Protection and Monopoly Prevention Centre Board, Member at Institute of Public Administration. He also chairs many Committees such as Chairman of the Executive Committee of the Oman Aviation Academy, Chairman of the Advisory Committee of the Small & Medium Enterprises Development Fund (SMEF), Chairman of the Steering Committee of the Advanced Cyber Security Academy (ACA); He also published a number of scientific researches and participated in many conferences as a speaker.

Brief Profile of Executive 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, Mr. Bikram was the Chief Risk Officer of OMINVEST since June 2014. He holds a BSc (with honors) in Mechanical Engineering from Moscow and an MBA from University of Alberta, Canada. Mr. 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.

Mr. Janaab Sayyid Khalifa Samih Al Said, Deputy General Manager – HR & Administration joined the Company on 15 November 2020. Mr. Khalifa has over 26 years of work experience in Banking industry with expertise across areas of Business, Investment, Operations, Administration and Human Resources. He had worked in different capacities with local and international banks. He holds a Master of Administration from University of Hull, U.K.

BOARD SUB-COMMITTEES

Nomination, Remuneration and Executive Committee

The Nomination, Remuneration and Executive Committee comprises of 4 Directors and is currently headed by the Company's Chairman Mr. Taya Jandal Ali. The other members of the Nomination, Remuneration and Executive Committee are Mr. Hani Al Zubair, Mr. Abdul Aziz Al Balushi and Mr. Muhammad Husam Al Zubair.

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 2020, the Nomination, Remuneration and Executive Committee met two 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. Currently, the Committee is headed by Mr. Pramod G. Karajgikar. The other members of this Committee are Mr. Subrata Kumar Mitra and Dr. Dhafir Al Shanfari. The Committee assists the Board in fulfilling its oversight responsibilities. The Committee reviews the financial reporting process, the system of internal control, adhering to its own Manual of Authority and Procedures and co-ordinates the audit process.

During the year 2020, the Committee met four times, viz. on 27th January, 29th April, 26th July and 25th 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 4 Directors, all being non-executive directors nominated by the Board. The Committee has been reconstituted by the Board of Directors during the year 2020. Currently, the Committee is headed by Mr. AbdulAziz Al Balushi. The other members of this Committee are Mr. Sanjay Kawatra, Dr. Rashid Al Balushi and Mr. Subrata Kumar Mitra.

The Risk Committee reviews the management of overall risks and Company's process for monitoring compliance with laws and regulations. During the year 2020, 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 2020, 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 arm's 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 2020, 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 150,000 (Rials 140,000 paid in 2020 for 2019 remuneration) during the year on account of Directors' remuneration which will be paid in 2021 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 1,014K 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 members were last elected to the Board at the Annual General Meeting held on June 4, 2020 with three years tenor. The evaluation of the Board of Directors will be carried out once during the tenure of the new Board of Directors.

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. Accordingly, an independent entity has carried out an evaluation of the Internal Audit Unit during 2019 and submitted their report. The next review will be conducted during 2023.

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 2020 will be discussed in the shareholders' meeting scheduled to be held in March 2021.

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 shareholding

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 2020 was as follows:

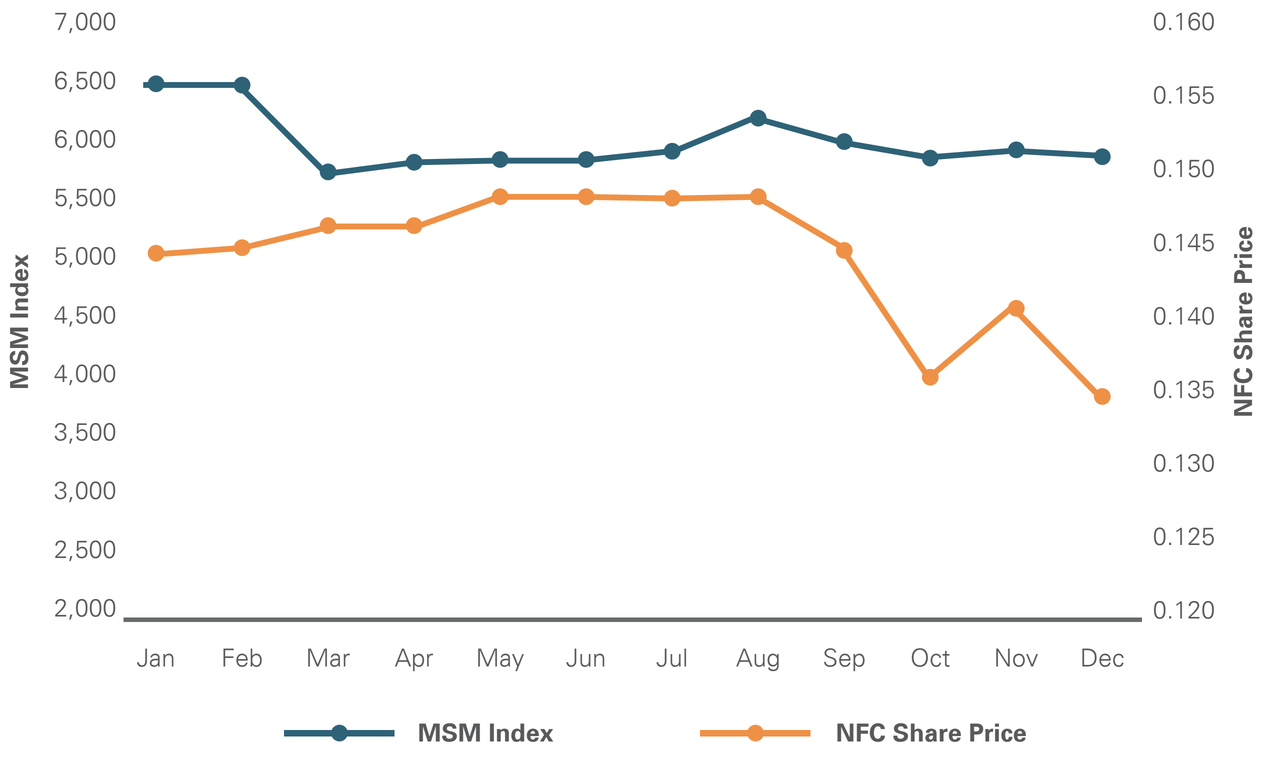
Category	No. of shareholders	% of holding
0-30,000	118	0.161
30,001 - 60,000	10	0.079
60,001 - 90,000	3	0.044
90,001 - 120,000	1	0.017
120,001 - 150,000	2	0.049
Over 150,001	41	35.616
Total	**175**	**35.966**

Statement on Market Price

The Company's shares are listed in the Muscat Securities Market. The closing share price as at 31 December 2020 was Rials 0.125 per share. The market price quotes for the traded shares during 2020 were as follows.

Month	High	Low	Close	Traded Volume	Value (Rials)
January	0.140	0.138	0.139	-	-
February	0.142	0.136	0.140	583,396	79,862
March	0.142	0.136	0.142	6,313	895
April	0.130	0.130	0.142	200	26
May	0.145	0.142	0.145	364,740	51,930
June	0.145	0.142	0.145	-	-
July	0.145	0.142	0.145	-	-
August	0.145	0.142	0.145	-	-
September	0.140	0.140	0.140	400,000	56,000
October	0.135	0.126	0.127	177,581	22,600
November	0.136	0.132	0.134	1,134,839	151,785
December	0.130	0.121	0.125	50,037	6,183

Performance of the Company in comparison with MSM Index for Financial Sector



STATUTORY AUDITORS

The shareholders of the Company appointed PricewaterhouseCoopers (PwC) as its auditors for 2020.

PwC is a global network of firms operating in 155 countries with more than 284,000 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 is strongly committed to Oman where it is recognised as one of the leading providers of quality business advisory services. PwC have had a local practice in Oman since 1971 and now have 8 partners, 1 of whom is Omani and 7 directors, 1 of whom is Omani and approximately 176 other members of staff operating from the PwC office in the Sultanate.

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 37,000 towards professional services rendered to the Company for the year 2020.

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 2020.

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 June 4, 2020	No. of meetings attended				Directorship in other SAOG Companies	Sitting Fees paid to each Director during 2020 Rials	Directors Remuneration paid to each Director during 2020 Rials
			Board	Nomination, Remuneration and Executive Committee	Audit Committee	Risk Committee			
Taya Jandal Ali	Himself	Yes	6	1	-	-	1	3,500	28,000
Hani Al Zubair	Himself	Yes	6	2	-	-	-	4,000	14,000
Pramod G. Karajgikar	Muscat Contract Cleaning & Maintenance LLC	Yes	6	-	4	-	1	5,000	14,000
AbdulAziz Al Balushi	Oman International Development and Investment Co. SAOG	Yes	6	2	-	5	2	6,500	14,000
Sanjay Kawatra	Himself	Yes	6	-	-	5	1	5,500	14,000
Muhammad Husam Al Zubair	Al Hilal Investment Co. LLC	Yes	3	1	-	-	-	2,000	-
Dr. Rashid Al Balushi	Muscat Trading Co. LLC	Yes	2	-	-	3	-	2,500	-
Subrata K. Mitra**	Al Thurya for Investments LLC	No	2	-	1	-	1	1,500	-
Dr. Dhafir Al Shanfari***	Himself	No	1	-	-	-	-	500	-
Asim Al Ghailani**	Al Thurya for Investments LLC	Yes	3	-	3	-	-	3,000	14,000
K. Balaji*	Al Hilal Investment Co. LLC	Yes	2	1	-	-	-	1,500	14,000
K. Palanivelu*	Muscat Trading Co. LLC	Yes	1	-	-	1	-	1,000	14,000
Badar Al Shanfari*	Himself	Yes	2	-	2	-	-	2,000	14,000
Total								38,500	140,000

* Mr. K. Balaji, Mr. K. Palanivelu and Mr. Badar Al Shanfari term ended in June 2020
** Al Thuraya for Investments LLC has replaced Mr. Asim Al Ghailani with Mr. Subrata K. Mitra in July 2020
*** Dr. Dhafir Al Shanfari has been appointed as a Temporary Director in December 2020.

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 2020, 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 2020;
- the statement of financial position as at 31 December 2020;
- 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 significant accounting policies and other explanatory information.

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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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

Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290,

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 2020, the Company has net investment in finance leases, working capital and factoring receivables of RO 402.344 million net of credit impairment provision of RO 43.733 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. Information on the accounting policy, credit risk and significant estimates and judgements are included in notes 2.4, 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. As disclosed in note 3.1.1, the COVID-19 global pandemic significantly impacted management's determination of the ECL and required the application of heightened judgment. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate of Stage 1 and Stage 2 ECL in future periods. To address the uncertainties inherent in the current and future environment and to reflect all relevant risk factors not captured in the Company's modelled results, management applied expert credit judgment; management applied quantitative and qualitative adjustments to its overall loan's portfolio resulting from COVID-19, the temporary effects of the Company and the Government loan deferral schemes, which may not completely mitigate future losses, and the impacts to particularly vulnerable sectors affected by COVID-19. 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);	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; and • reviewed 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; • testing and assessing the reasonableness of the Company's use of scenarios, weightings and discounting; and • assessing the application of management's credit judgment by evaluating that the amounts recorded were reflective of underlying credit quality and macroeconomic trends, including the impact of COVID-19, amongst other factors.

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

Our audit approach (continued)

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 (continued) • 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); • a high degree of estimation uncertainty in the areas noted above when assessing the impact of COVID-19 on the allowance for credit losses. Specifically, management has applied judgment in assessing the potential impact of government support programs and client relief measures on the ECL, including estimation of the effects on borrowers' staging; and • determining disclosure requirements in accordance with IFRS.	
Impairment of goodwill As at 31 December 2020, 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 management's 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 management was able to conclude that the goodwill is not impaired as at 31 December 2020 since the value in use is higher than the carrying amount of the goodwill and accordingly, no impairment has been recognised. 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 management's goodwill impairment assessment: • assessed the appropriateness of the methodology, valuation model and various inputs selected by management to calculate the 'value in use'; • tested the mathematical accuracy of management's 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.

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

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.

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.

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

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

- 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, actions taken to eliminate threats or safeguards applied.

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 LLC
C.R. No 1230865
برايس وترهاوس كوبرز ش.م.م
س.ت ١٢٣٠٨٦٥

Kashif Kalam
Muscat, Sultanate of Oman
15 March 2021

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

National Finance Company SAOG

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RO '000	2019 RO '000
Income			
Income from financing activities	12 (a)	**40,970**	41,806
Finance costs		**(17,861)**	(16,302)
Net finance income		**23,109**	25,504
Other operating income	6	**2,952**	2,826
		26,061	28,330
Expenses			
Operating expenses	7	**(9,959)**	(9,537)
Depreciation	13	**(518)**	(550)
Amortization	14	**(340)**	(338)
Impairment of goodwill	4.3	**-**	(256)
Net impairment loss on lease receivables	12 (b)	**(6,255)**	(6,480)
Bad debts written back		**142**	54
Total expenses		**(16,930)**	(17,107)
Profit before tax		**9,131**	11,223
Income tax expense	8 (b)	**(1,112)**	(1,206)
Profit after tax		**8,019**	10,017
Other comprehensive income			
Items that will be classified to profit or loss			
Movement in revaluation reserve – net of tax		**26**	31
Total comprehensive income		**8,045**	10,048
Basic and diluted earnings per share (RO)	9	**0.012**	0.016

The notes and other explanatory information on pages 51 to 97 form an integral part of these financial statements.
Independent auditors' report - pages 38-42.

National Finance Company SAOG

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 RO '000	2019 RO '000
ASSETS			
Cash and cash equivalents	10	**5,407**	7,947
Net investment in finance leases	12	**348,954**	389,384
Working capital and factoring receivables	12	**53,390**	37,262
Advances, prepayments and other receivables		**2,452**	3,403
Assets held for sale	27	**1,500**	1,500
Goodwill	4.3	**5,950**	5,950
Intangible assets	14	**1,134**	1,405
Property and equipment	13	**7,095**	6,203
Statutory deposit	11	**250**	250
Total assets		**426,132**	453,304
LIABILITIES AND EQUITY			
LIABILITIES			
Creditors and accruals	18	**8,303**	5,138
Tax liabilities	8	**1,687**	2,007
Bank borrowings	20	**281,793**	320,023
Fixed deposits	21	**24,834**	17,009
Deferred tax liabilities	8	**190**	304
End of service benefits	19	**666**	711
Total liabilities		**317,473**	345,192
EQUITY			
Capital and reserves			
Share capital	15	**54,123**	54,123
Share premium	1.2	**5,786**	5,786
Revaluation reserve		**1,040**	783
Foreign currency reserve	28	**4,321**	4,321
Voluntary reserve	29	**3,000**	3,000
Cash flow hedge reserve	3.2.1	**(298)**	-
Legal reserve	16	**8,501**	7,699
Retained earnings		**14,117**	14,331
Total shareholders' equity attributable to the equity holders of the company		**90,590**	90,043
Perpetual bonds	17	**18,069**	18,069
Total equity		**108,659**	108,112
Total liabilities and equity		**426,132**	453,304
Net assets per share (RO)	9	**0.167**	0.166

These financial statements including notes and other explanatory information on pages 46 to 97 were approved and authorised for issue in accordance with a resolution of the Board of Directors on [27th January 2021] and signed on their behalf by:

Tayd Jandal Ali
Chairman

Robert Pancras
Chief Executive Officer

Independent auditors' report - pages 38-42.

National Finance Company SAOG

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Share premium	Revaluation reserve	Foreign currency reserve	Voluntary reserve	Cash flow hedge 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 2020	54,123	5,786	783	4,321	3,000	-	7,699	14,331	90,043	18,069	108,112
Comprehensive income:											
Profit for the year	-	-	-	-	-	-	-	8,019	8,019	-	8,019
Other comprehensive income											
Incremental depreciation – net of tax	-	-	(26)	-	-	-	-	26	-	-	-
Change in fair value	-	-	-	-	-	(298)	-	-	(298)		(298)
Total comprehensive income	-	-	(26)	-	-	(298)	-	8,045	7,721	-	7,721
Other transactions within equity:											
Gain on revaluation of Land & Building (note 13)	-	-	283	-	-	-	-	-	283	-	283
Transfer to legal reserve (note 16)	-	-	-	-	-	-	802	(802)	-	-	-
Perpetual bond interest (note 17)	-	-	-	-	-	-	-	(1,460)	(1,460)	-	(1,460)
Total other transactions within equity	-	-	283	-	-	-	802	(2,262)	(1,177)	-	(1,177)
Transactions with owners:											
Cash dividend (note 22)	-	-	-	-	-	-	-	(5,997)	(5,997)	-	(5,997)
Total transactions with owners	-	-	-	-	-	-	-	(5,997)	(5,997)	-	(5,997)
31 December 2020	54,123	5,786	1,040	4,321	3,000	(298)	8,501	14,117	90,590	18,069	108,659

National Finance Company SAOG

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	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 17)	-	-	-	-	-	-	-	(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	-	-	-	-	-	-	-	(4,143)	(4,143)	-	(4,143)
Stock dividend	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 51 to 97 form an integral part of these financial statements.
Independent auditors' report - pages 38-42.

National Finance Company SAOG

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RO '000	2019 RO '000
Cash flows from operating activities			
Profit before tax		**9,131**	11,223
Adjustments for:			
Depreciation	13	**518**	550
Amortization	14	**340**	338
Impairment of goodwill	4.3	**-**	256
End of service benefits charge	19	**145**	143
Gain on sale of property and equipment		**(1)**	-
Impairment on lease receivables	12 (b)	**6,255**	6,480
Bad debts written back		**(142)**	(54)
Finance costs		**17,861**	16,302
Cash flows from operating activities before working capital changes and payment of end of service benefits, interest and tax		**34,107**	35,238
Changes in working capital:			
Net investment in financing activities, working capital and factoring receivables		**16,318**	(13,664)
Advances, prepayments and other receivables		**951**	(305)
Creditors and accruals		**9,356**	(6,999)
		26,625	(20,968)
Interest paid		**(17,631)**	(17,149)
Income tax paid	8 (f)	**(1,473)**	(895)
End of service benefits paid	19	**(190)**	(154)
Net cash generated from / (used in) operating activities		**41,438**	(3,928)
Cash flows from investing activities			
Purchase of property and equipment	13	**(5,820)**	(855)
Purchase of intangible assets	14	**(69)**	(45)
Proceeds from sale of property and equipment		**1**	-
Net cash used in investing activities		**(5,888)**	(900)
Cash flows from financing activities			
Proceeds from bank borrowings	23	**350,562**	515,894
Repayment of bank borrowings	23	**(388,072)**	(492,548)
Proceeds from fixed deposits	23	**10,775**	8,723
Repayment of fixed deposits	23	**(3,357)**	(15,164)
Dividend paid		**(5,997)**	(6,935)
Perpetual bond interest paid		**(1,460)**	(1,456)
Net cash (used in) / generated from financing activities		**(37,549)**	8,514
Net change in cash and cash equivalents during the year		**(1,999)**	3,686
Cash and cash equivalents at the beginning of the year		**7,406**	3,720
Cash and cash equivalents at the end of the year	23	**5,407**	7,406

The notes and other explanatory information on pages 51 to 97 form an integral part of these financial statements.

Independent auditors' report - pages 38-42.

National Finance Company SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 (31 December 2019: 20 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.

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 256 k has been made in the current financial year (2019 – RO 257k) in respect of intangible assets.

(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

	2020 RO '000	2019 RO '000
1 January	**1,280**	1,537
Amortization of intangible asset	**(256)**	(257)
31 December	**1,024**	1,280

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 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.

(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 2020 and relevant for the Company's operations:

For the year ended 31 December 2020, 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 2020.

(e) Changes in significant accounting policies

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Definition of Material – amendments to IAS 1 and IAS 8
Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7. The amendment listed does not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(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 2021 and have not been early adopted by the Company. The Company is currently in the process of assessing the impact of the upcoming standards, amendments and interpretations on the Company's Financial Statements.

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.

2.3 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.

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 the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

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

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

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.

The Company has recognized modification gain or loss for the leases where payment holiday has been offered as per CBO guidelines.

In case of Corporate and SME customers requesting for deferral of repayments, the Company has granted deferral to such customers at the original effective rate over their outstanding principal and extended the original maturity period of the loan. For retail customers who have suffered job losses or reduction in salary, the Company has waived the interest during the deferral period.

National Finance Company SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

The Company has determined that the modifications due to deferment of instalment and waiver of profit allowed is in line with CBO guidelines.

This resulted in the Company recognizing a modification loss of around 1.01% of the income from finance activities during the year ended 31 December 2020 which was presented as part of net financing income. Out of the above net modification loss amount of 1.01% of the Income from finance activities, the Company determined that an amount of RO 94K pertained to loans where the difference between carrying amount and present value of future cash flows discounted by original interest rate exceeded the prescribed threshold of 10% and therefore resulted in substantial modification. The modification loss is largely due to interest waiver on retail loans for job losses and reduction in salary customers and the loss on account of Corporate and SME customers was immaterial.

Stage-wise analysis of customers benefiting from payment deferrals

The following table contains an analysis of the deferred amount of principal outstanding and accrued interest profit pertinent to finance lease receivables of the customers, who have been provided with such benefits, and the related ECL:

RO'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Finance lease receivables	**337,742**	**45,188**	**63,147**	**446,077**
Total exposure to customers benefiting from payment deferrals	**95,532**	**23,935**	**784**	**120,251**
Total ECL on exposure to customers benefiting from payment deferrals	**4,715**	**2,564**	**208**	**7,487**
Of which:				
Deferred amount	**24,128**	**6,909**	**115**	**31,152**

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 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.

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	4-10
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.

2.7 Cash and cash equivalents

Cash and cash equivalents include 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 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 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.

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:

1. Provide shareholders a reasonable return commensurate with the size of their investment in the Company; and
2. 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 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, 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. It is subject to impairment testing at least on an annual basis.

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.

2.19.3 Amortization

Amortization 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.

Amortization 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.

2.24 Borrowing cost

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 4.39%.

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 and 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, working capital finance and factoring, 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.

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 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.

Outbreak of Coronavirus (COVID-19)
The World Health Organization officially declared COVID-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the Company has witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries and sectors.

Government measures
Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio. Some of these measures have been extended until 31 March 2021.

Impact of COVID-19 on the Company
The following impact areas are observed and attributable to the Covid-19 pandemic effects.

- Effective interest rate reduction on account of delayed repayments scheme offered to Salaried Omani individuals who have either reduction in salary or lost their jobs.
- The Company has recognized the impact of reduced Effective Interest Rate on account of delayed repayments offered to Salaried Omani individuals in line with the CBO guidance in this respect.
- Decreased revenue on account of cancelled lease commitments due to COVID-19.
- No material impact was observed on revenue loss due to cancellation of lease commitments on account of COVID-19 during this period.
- Disruption in liquidity supply chain thereby increasing cost of borrowings and reduced customer business.
- The overall liquidity in Oman and GCC region was tight as a direct and indirect result of COVID-19 impact due to which interest costs have increased during this period.
- Decreased business levels have an impact on fixed overhead allocations.
- The Company has practiced work-from-home as a direct result of COVID-19 due to which Company has witnessed under absorption of personnel costs and operational overheads. During periods of Work from home and lockdown, as advised by Regulation the Company had continued to incur normal personnel costs

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

- Transfers between Stage 1 and Stages 2 or 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 lease receivables recognised during the period, as well as releases for lease receivables de-recognised in the period.
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models.
- Impacts on the measurement of ECL due to changes made to models and assumptions.
- Financial assets de-recognised during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the lease receivables between the beginning and the end of the annual period due to these factors:

Lease receivables	Stage 1	Stage 2	Stage 3	Total
	RO' 000	RO' 000	RO' 000	RO' 000
Opening balance	350,283	46,633	65,479	462,395
Transfer from 1 to 2	(21,825)	21,825	-	-
Transfer from 1 to 3	(4,538)	-	4,538	-
Transfer from 2 to 3	-	(6,752)	6,752	-
Transfer from 2 to 1	14,376	(14,376)	-	-
Transfer from 3 to 1	2,659	-	(2,659)	-
Transfer from 3 to 2	-	2,466	(2,466)	-
Changes in lease receivables	(53,230)	2,181	(3,195)	(54,244)
New leases originated	103,549	-	-	103,549
Leases matured	(53,532)	(6,789)	(5,302)	(65,623)
Closing balance	337,742	45,188	63,147	446,077

The following tables explain the changes in the expected credit loss allowance between the beginning and the end of the annual period:

Allowance for expected credit losses	Stage 1	Stage 2	Stage 3	Total
	RO' 000	RO' 000	RO' 000	RO' 000
Opening balance	3,537	1,925	30,287	35,749
Transfer from 1 to 2	(1,098)	1,098	-	-
Transfer from 1 to 3	(1,130)	-	1,130	-
Transfer from 2 to 3	-	(2,455)	2,455	-
Transfer from 2 to 1	586	(586)	-	-
Transfer from 3 to 1	64	-	(64)	-
Transfer from 3 to 2	-	171	(171)	-
Changes in ECL	5,249	3,496	2,314	11,059
ECL of matured leases	(592)	(286)	(2,197)	(3,075)
Closing balance	6,616	3,363	33,754	43,733

In line with CBO guidance on giving consideration to both the effects of Covid-19 and significant short term cash flow issues faced by performing borrowers, Company has not automatically applied SICR and measurement of lifetime losses to customers availing of relief measures such as payment holidays.

Company has considered the possible fallout of Covid-19 pandemic along with prevailing low oil prices, economic downturn and significant CBO relief measures undertaken and applied post model adjustments through temporary stress factors on Probability of Default and Collateral values resulting in increased impairment ECL. Additionally, Company has a prudent measure, also applied a portfolio level post-model overlay on the ECL amount.

Hence, based on regulatory, wherever necessary, Company has applied post model adjustments and management judgment overlays, while computing its ECL with an intention to collectively cover the:-

- Customer, industry, sector specific evolving credit risk and appetite;
- Impact of recent external ratings and resultant change in the PD term structures;
- Impact of Covid-19 and depressed oil prices available in latest forward-looking information; and
- Mitigating impacts of government support measures to the extent possible.

Significant increase in credit risk

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

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

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

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

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

Definition of default

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

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

National Finance Company SAOG
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

The following table shows a comparison of the Company's allowances for expected credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 based on the probability weightings of three scenarios with allowances for expected credit losses resulting from simulations of each scenario weighted at 100%.

	ECL	Impact on reported ECL
	RO '000	RO '000
Base scenario – 100%	9,321	(658)
Optimistic scenario – 100%	8,010	(1,969)
Pessimistic scenario – 100%	10,632	653

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.

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

National Finance Company SAOG
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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
Standard	Stage 1	337,575	170	6,608	(6,438)	330,967	35,391	-
	Stage 2	42,880	-	3,293	(3,293)	39,587	4,132	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		380,455	170	9,901	(9,731)	370,554	39,523	-
Special mention	Stage 1	156	17	8	9	148	31	-
	Stage 2	1,791	90	57	33	1,734	216	1
	Stage 3	3,860	185	771	(586)	3,089	286	169
Subtotal		5,807	292	836	(544)	4,971	533	170
Substandard	Stage 1	7	2	-	2	7	2	-
	Stage 2	372	93	9	84	363	51	-
	Stage 3	5,181	1,219	1,582	(363)	3,599	232	318
Subtotal		5,560	1,314	1,591	(277)	3,969	285	318
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	85	34	2	32	83	17	-
	Stage 3	9,369	2,775	4,184	(1,409)	5,185	171	735
Subtotal		9,454	2,809	4,186	(1,377)	5,268	188	735
Loss	Stage 1	4	4	-	4	4	-	-
	Stage 2	60	54	2	52	58	15	-
	Stage 3	44,737	31,798	27,217	4,581	17,520	426	6,069
Subtotal		44,801	31,856	27,219	4,637	17,582	441	6,069
Total	Stage 1	337,742	193	6,616	(6,423)	331,126	35,424	-
	Stage 2	45,188	271	3,363	(3,092)	41,825	4,431	1
	Stage 3	63,147	35,977	33,754	2,223	29,393	1,115	7,291
	Total	446,077	36,441	43,733	(7,292)	402,344	40,970	7,292

As at 31 December 2019

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference	Net carrying amount	Interest recognised as per IFRS 9	Reserve interest as per CBO Norms
		Rial' 000	Rial' 000	Rial' 000	Rial' 000	Rial' 000	Rial' 000	Rial' 000
Standard	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	-
	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	-
Special Mention	Stage 1	86	12	1	11	85	17	-
	Stage 2	282	25	20	5	262	37	4
	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
Substandard	Stage 1	16	4	1	3	15	3	-
	Stage 2	6	1	-	1	6	2	-
	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
Doubtful	Stage 1	4	2	-	2	4	-	-
	Stage 2	4	2	-	2	4	1	-
	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
Loss	Stage 1	8	5	-	5	8	1	-
	Stage 2	25	25	3	22	22	3	-
	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
Total	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	462,395	30,186	35,749	(5,563)	426,646	41,806	5,563

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 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.

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

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference	Net carrying amount	Interest 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
Classified as performing	**Stage 1**	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-
Classified as non-performing	**Stage 1**	**103**	**18**	**6**	**12**	**97**	**26**	-
	Stage 2	**55**	**22**	**2**	**20**	**53**	**7**	-
	Stage 3	**3,503**	**2,347**	**2,675**	**(328)**	**828**	**62**	**743**
Subtotal		**3,661**	**2,387**	**2,683**	**(296)**	**978**	**95**	**743**
Total	**Stage 1**	**103**	**18**	**6**	**12**	**97**	**26**	-
	Stage 2	**55**	**22**	**2**	**20**	**53**	**7**	-
	Stage 3	**3,503**	**2,347**	**2,675**	**(328)**	**828**	**62**	**743**
	Total	**3,661**	**2,387**	**2,683**	**(296)**	**978**	**95**	**743**

As at 31 December 2019

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
		Rial' 000	Rial' 000	Rial' 000	Rial' 000	Rial' 000	Rial' 000	Rial' 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

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

	As per CBO norms		As per IFRS 9		Difference	
	Current year	Previous year	**Current year**	Previous year	**Current year**	Previous year
	RO' 000	RO' 000	**RO' 000**	RO' 000	**RO' 000**	RO' 000
Impairment loss charged to profit or loss	**6,255**	6,480	**6,255**	6,480	**-**	-
Provisions required as per CBO norms / held as per IFRS 9	**43,733**	35,749	**43,733**	35,749	**-**	-
Gross NPL ratio	**14.7**	13.5	**14.2**	14.2	**0.5**	(0.7)
Net NPL ratio	**5.4**	6.2	**7.1**	8.1	**(1.7)**	(1.9)

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:

	31 December 2020				31 December 2019
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	Total
	RO '000	**RO '000**	**RO '000**	**RO '000**	RO '000
Bank balances	**5,302**	**-**	**-**	**5,302**	7,937
Net investment in finance leases, working capital and factoring receivables	**337,742**	**45,188**	**63,147**	**446,077**	462,395
Statutory deposit	**250**	**-**	**-**	**250**	250
Undrawn finance lease commitments	**6,901**	**-**	**-**	**6,901**	8,124
Bank guarantees	**143**	**81**	**-**	**224**	788
Advances	**145**	**-**	**26**	**171**	188
Carrying amount before ECL	**350,483**	**45,269**	**63,173**	**458,925**	479,682
Expected credit loss allowance	**6,665**	**3,363**	**33,779**	**43,807**	35,749
Carrying amount after ECL	**343,818**	**41,906**	**29,394**	**415,118**	443,933

Expected credit loss for financial instruments other than net investment in finance leases, working capital and factoring receivables are held under the other liabilities in the Statement of financial position.

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

	31 December 2020	31 December 2019
	RO'000	RO'000
Undrawn finance lease commitments (note 24)	**6,901**	8,124
Carrying amount	**6,901**	8,124

The above tables represent a worst-case scenario of credit risk exposure of the Company at 31 December 2020 and 31 December 2019.

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 other financial instruments.

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 2020 is RO 401.1 million.

The Company evaluates its collateral value by applying the reducing balance method 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 by type of customer

	2020	2019
	RO '000	RO '000
Individuals	**154,188**	168,123
SME and Corporate	**248,156**	258,523
	402,344	426,646

(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.

	2020	2019
	RO '000	RO '000
Trading, contracting and services	**227,128**	226,998
Individuals	**154,188**	168,123
Manufacturing	**21,028**	31,525
	402,344	426,646

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.

3.2.1 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 of RO 1.72 million (December 2019 - RO 1.71 million).

Derivative financial instruments

The Company has used interest rate swaps to hedge the cash flow volatility risk on its borrowed funds and uses pay fixed/receive floating interest rate in respect of USD LIBOR interest rate (to hedge the volatility of LIBOR based loan). Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria. The carrying amount of the hedged items is included in Bank borrowings on the statement of financial position with the notional amount totalling to RO 6.851 million equivalent to US$ 17.813 million.

The table below shows the positive and negative fair values of derivative financial instruments, together with the undiscounted cash flows analysed by the term of their maturity.

			Nominal cash flows by term to maturity			
	Assets	Liabilities	Notional cash flows	Up to 1 month	> 1 month to 1 year	> 1 year to 5 years
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Derivative for Hedging						
Cash flow hedge (RO '000)	-	298	(6,851)	-	(2,253)	(4,598)
Cash flow hedge (US$ '000)	-	775	(17,813)	-	(5,877)	(11,936)

Since the notional amount of the Bank borrowings and Interest rate swap arrangement is the same as USD 17.813 million as at 31 December 2020, the hedge is 100% effective and there is no element of hedge ineffectiveness. Gross carrying amount of the derivative liability, as at 31 December 2020 is RO 300K and the present value of which approximate to RO 298K.

All other assumptions remaining unchanged, had the LIBOR rate increased by 0.5% baizes points, the present value of the derivative liability would decrease by RO 6K.

3.2.2 Foreign currency risk (Cash flow hedge)

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 68.16 million at 31 December 2020 (31 December 2019 - RO 84.69 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 one-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 2020 is RO 68.16 million (31 December 2019 – RO 84.69 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 2020	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 fixed deposits	57,516	208,442	49,234	-	315,192
Creditors and accruals	5,089	3,214	-	-	8,303
Financial liabilities	62,605	211,656	49,234	-	323,495

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 fixed deposits	38,689	220,288	88,900	-	347,877
Creditors and accruals	2,383	2,755	-	-	5,138
Financial liabilities	41,072	223,043	88,900	-	353,015

3.4.2 Off balance sheet items

	2020 RO '000	2019 RO '000
Approved lease commitments (note 24)	6,901	8,124
Bank guarantees (note 25)	224	788
Total exposure	7,125	8,912

The Company expects the majority of the approved lease commitments to be exercised by the customers and disbursed by the Company within 3 months (2019- 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 2020 and 31 December 2019 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 27 to these financial statements. These are revalued by independent third party valuers.

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.

Fair value versus carrying amounts

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

Fair value 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, 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 was as follows:

	2020 RO	2019 RO
Bank borrowings	281,793	320,023
Fixed deposits	24,834	17,009
Less: cash and cash equivalents	(5,407)	(7,947)
Net debt	301,220	329,085
Total equity	108,659	108,112
Gearing ratio (times)	2.77	3.04

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; and
- 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: 2.5% terminal growth rate, cost of capital of 9.32% (2019 – 8.55%) and forecast period of five years. The impairment amongst others, is significantly dependent upon cost of capital and achievement of projected results.

National Finance Company SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 lower than its recoverable amount and no impairment loss during 2020 (2019: 256k) was recognized.

The movement in goodwill for the year is as follows:

	2020 RO '000	2019 RO '000
1 January	**5,950**	6,206
Impairment of goodwill	**-**	(256)
31 December	**5,950**	5,950

All other assumptions remaining unchanged, had the discount rate increased by 1%, the value in use would have decreased by RO 11.9 million, to RO 77.5 million, against the carrying amount of RO 67.2 million. No impairment would have resulted even if there was an increase of discount rate by such extent.

5 Operating segments

The Company has only one reportable segment namely, leasing and financing activities which includes leasing activities, working capital and debt factoring, all of which are carried out in Oman; hence no geographical segmentation is disclosed. 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 other comprehensive income and notes to the financial statements.

6 Other operating income

	2020 RO '000	2019 RO '000
Penal charges	**947**	680
Income from pre-closed leases	**488**	450
Miscellaneous income	**1,517**	1,696
	2,952	2,826

7 Operating expenses

(a)

	2020 RO '000	2019 RO '000
Employee related expenses (refer note 'b' below)	**7,976**	7,783
Occupancy costs	**153**	201
Communication costs	**361**	433
Professional fees and subscriptions	**479**	176
Advertising and sales promotion	**136**	69
Directors' remuneration and sitting fees (note 26)	**166**	200
Other office expenses	**688**	675
	9,959	9,537

(b) Total employee related expenses included under operating expenses comprise:

	2020 RO '000	2019 RO '000
Salaries and allowances	6,464	6,422
Other benefits	946	760
Social security costs	421	458
End of service benefits (note 19)	145	143
	7,976	7,783

The total number of employees as at 31 December 2020 is 312 (31 December 2019: 311)

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% (2019 – 15%) on the taxable profits.

(a) Status of tax assessments

Tax assessments up to year 2016 are complete and agreed with the taxation authority. Assessments of the Company for tax years 2017 to 2019 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 2020.

(b) Tax charge for the year

	2020 RO '000	2019 RO '000
Current tax - current year	1,112	1,407
Current tax - prior years	-	(576)
Deferred tax - current year	-	-
Deferred tax - prior years	-	375
	1,112	1,206

(c) Tax liabilities - net

	2020 RO '000	2019 RO '000
Deferred tax asset (refer note 'd' below)	-	-
Deferred tax liability (refer note 'e' below)	190	304
Provision for income tax (refer note 'f' below)	1,687	2,007
Net tax liabilities	1,877	2,311

National Finance Company SAOG
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(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:

	2020 RO '000	2019 RO '000
1 January	-	410
Reduction during the year	-	(410)
31 December	-	-

(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:

	2020 RO '000	2019 RO '000
1 January	304	339
Additions during the year	17	-
Released during the year – for tax provision	(41)	-
Released during the year – for revaluation reserve	(90)	(35)
31 December	190	304

(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:

	2020 RO '000	2019 RO '000
1 January	2,007	1,471
Transfer from former OOLC provision	-	600
Income tax charge for the year	1,112	831
Deferred tax liability released during the year	41	-
Paid during the year	(1,473)	(895)
31 December	1,687	2,007

(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:

	2020 RO '000	2019 RO '000
Accounting profit before income tax	9,131	11,223
Income tax expense computed at applicable tax rates	1,370	1,683
Items not deductible (net) in determining taxable profits	(258)	(276)
Current tax - prior years	-	(576)
Deferred tax	-	375
Tax charge for the year	1,112	1,206

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

The calculation of earnings per share is as follows:

	2020	2019
Profit for the year attributable to equity shareholders (RO '000)	8,019	10,017
Interest on perpetual bonds (RO '000)	(1,460)	(1,456)
Net profit attributable to ordinary shareholders (RO '000)	6,559	8,561
Net assets attributable to ordinary shareholders (RO '000)	90,590	90,043
Weighted average number of shares during the year ('000)	541,230	541,230
Number of shares at the year end ('000)	541,230	541,230
Basic and diluted earnings per share (RO)	0.012	0.016
Net assets per share (RO)	0.167	0.166

Earnings per share as at 31 December 2020 have been calculated using weighted average shares outstanding for the year. The weighted average shares outstanding for the year ended 31 December 2020 are 541,230,454 shares (31 December 2019: 541,230,454 shares). Net assets per share have been calculated using outstanding shares as at 31 December 2020 and 31 December 2019.

10 Cash and cash equivalents

	2020 RO '000	2019 RO '000
Bank current accounts	5,302	7,937
Cash in hand	105	10
	5,407	7,947

National Finance Company SAOG
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 (2019-1.5%).

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

	2020 RO '000	2019 RO '000
Gross investment in finance leases	476,724	516,164
Working capital finance and factoring receivables	71,599	45,755
Unearned lease income	(102,246)	(99,524)
	446,077	462,395
Allowance for expected credit losses	(43,733)	(35,749)
Net investment in financing activities	402,344	426,646

(a) Unearned lease income:

	2020 RO '000	2019 RO '000
1 January	99,524	96,946
Additions during the year	43,692	44,384
Recognized during the year	(40,970)	(41,806)
31 December	102,246	99,524

b) Allowance for expected credit losses (ECL):

The loss allowances for ECL reconcile to the opening loss allowances as follows:

	2020 RO '000	2019 RO '000
Opening balance	35,749	29,091
Provision		
Provided during the year	19,875	18,011
Released during the year	(13,620)	(11,531)
Written off during the year	-	(1,361)
Unrecognized contractual income		
Provided during the year	2,731	2,727
Released during the year	(1,002)	(925)
Written off during the year	-	(263)
Closing balance	43,733	35,749

(d) The current and non-current amounts are disclosed in note 31 to these financial statements.

(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 2020				
Gross	15,955	125,328	407,040	548,323
Present value	12,421	91,241	342,415	446,077
31 December 2019				
Gross	14,847	149,844	397,228	561,919
Present value	11,117	114,591	336,687	462,395

National Finance Company SAOG
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 of use asset RO'000	Total RO'000
At 31 December 2020							
Cost or valuation							
At 1 January 2020	955	600	3,643	270	4,020	268	9,756
Additions	-	3,718	1,283	-	819	-	5,820
Disposals / Transfers	-	-	(1)	-	(4,620)	-	(4,621)
Revaluation adjustment	-	(475)	-	-	-	-	(475)
Revaluation surplus	95	115	-	-	-	-	210
At 31 December 2020	1,050	3,958	4,925	270	219	268	10,690
Accumulated depreciation							
At 1 January 2020	-	448	2,893	126	-	86	3,553
Charge for the year	-	40	328	68	-	82	518
Disposals	-	-	(1)	-	-	-	(1)
Revaluation adjustment	-	(475)	-	-	--	-	(475)
At 31 December 2020	-	13	3,220	194	-	168	3,595
Net book value At 31 December 2020	1,050	3,945	1,705	76	219	100	7,095

	Freehold land RO '000	Buildings RO '000	Furniture, fixtures and equipment RO '000	Motor vehicles RO '000	Capital WIP RO '000	Right of use asset RO '000	Total RO '000
At 31 December 2019							
Cost or valuation							
At 1 January 2019	955	600	3,397	270	3,411	-	8,633
Additions	-	-	246	-	609	268	1,123
At 31 December 2019	955	600	3,643	270	4,020	268	9,756
Accumulated depreciation							
At 1 January 2019	-	416	2,536	51	-	-	3,003
Charge for the year	-	32	357	75	-	86	550
At 31 December 2019	-	448	2,893	126	-	86	3,553
Net book value At 31 December 2019	955	152	750	144	4,020	182	6,203

A valuation of the land and buildings was last performed by third party independent valuers as on 31 December 2020 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 3.95 million (31 December 2019- RO 0.24 million).

14 Intangible assets

	2020			2019		
	Computer software	Intangible assets	Total	Computer software	Intangible assets	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
At 1 January 2020	236	1,792	2,028	191	1,792	1,983
Additions	69	-	69	45	-	45
At 31 December 2020	305	1,792	2,097	236	1,792	2,028
Accumulated Amortization						
At 1 January 2019	111	512	623	30	255	285
Charge for the year	84	256	340	81	257	338
At 31 December 2020	195	768	963	111	512	623
Balance as at 31 December 2020	110	1,024	1,134	125	1,280	1,405

15 Share capital

The authorised share capital of the Company comprises 750,000,000 ordinary shares of Baizas 100 each (2019 - 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. (2019 - 541,230,454 ordinary shares of Baizas 100 each).

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

	2020		2019	
	Number of shares held	%	Number of shares held	%
Oman International Development and Investment Company SAOG	187,284,489	34.60	187,284,489	34.60
Al Hilal Investment Co. LLC	159,292,725	29.43	159,292,725	29.43

16 Legal reserve

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

17 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.

18 Creditors and accruals

	2020	2019
	RO '000	RO '000
Creditors	5,089	2,383
Accruals and other liabilities	2,859	2,615
Lease liabilities (refer note 'a' below)	57	140
Fair value of derivatives (note 3.2.1)	298	-
	8,303	5,138

The movement of lease liability is as follows:

	2020	2019
	RO '000	RO '000
1 January	140	205
Interest expense	4	9
Payment	(87)	(74)
31 December	57	140
Current	48	87
Non-Current	9	53
	57	140

19 End of service benefits

The movement in end of service benefit as at 31 December 2020 and 31 December 2019 is stated below:

	2020	2019
	RO '000	RO '000
1 January	711	722
Expenditure recognized in the statement of comprehensive income (note 7)	145	143
Payments during the year	(190)	(154)
31 December	666	711

Valuation methodology and assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

Discount rate – 5.75%

Future salary growth rate – 5.00%

The valuation discount rate was set based on the expected average borrowing rate.

Sensitivity analysis

The following table shows the results of the valuation of the provision for end of service benefit liability post change of the actuarial assumptions as below:

	Percentage change	Actuarial provision as at 31 December 2020	Percentage of change
	%	RO	%
Discount rate	+0.5%	640	-4%
Discount rate	-0.5%	693	4%
Salary increase	+0.5%	693	4%
Salary decrease	-0.5%	640	-4%

20 Bank borrowings

	2020 RO '000	2019 RO '000
Bank overdrafts	-	541
Short-term loans	98,909	123,850
Current portion of long-term loans	139,164	115,637
Long-term loans	43,720	79,995
	281,793	320,023

(a) During the year, interest was charged on the above borrowings at rates ranging between 2.70% and 6.35% per annum (31 December 2019-4.00% and 6.25% 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 2020, the notional amount of foreign currency forward contract amounted to RO 68.16 million [USD 177.22 million] (31 December 2019 - RO 84.69M [USD 220.18M]) to repay US Dollar term loans.

21 Fixed deposits

At 31 December 2020, the Company has accepted fixed deposits from corporate entities based in Oman for a total amount of RO 24.834 million (31 December 2019 - RO 17.009 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 4.60 % and 6.30 % per annum (31 December 2019 – 4.00% to 5.30% per annum). The carrying amount includes interest accrued till the end of the year.

22 Proposed and approved dividends

Proposed

The Board of Directors at the forthcoming Annual General Meeting propose a cash dividend of Baizas 6 per share (6%) on the shares outstanding on the record date. The cash dividend is expected to amount to RO 3,247,383. 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 2019 amounted to RO 5,996,833.

23 Cash and cash equivalents

	2020 RO '000	2019 RO '000
Bank overdrafts (note 20)	-	(541)
Cash and cash equivalents (note 10)	5,407	7,947
	5,407	7,406

Change in cash flows from financing activities (Principal)

	2020		2019	
Particulars	Cash flow from bank borrowings RO '000	Cash flow from fixed deposits RO '000	Cash flow from bank borrowings RO '000	Cash flow from fixed deposits RO '000
1 January	318,618	16,508	295,272	22,949
Additions during the year	350,562	10,775	515,894	8,723
Repayments during the year	(388,072)	(3,357)	(492,548)	(15,164)
31 December	281,108	23,926	318,618	16,508
Change in cash flows	(37,510)	7,418	23,346	(6,441)

24 Commitments

	2020 RO '000	2019 RO '000
Approved lease commitments (refer 'a')	6,901	8,124
Operating lease in respect of rentals of branches (short term leases) (refer 'b')	48	147
	6,949	8,271

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.

25 Contingencies

	2020 RO '000	2019 RO '000
Bank guarantees	224	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 2021.

26 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:

	2020	2019
	RO '000	RO '000
General and administrative expenses	2	2
Sales incentive paid	18	51
Directors' fees and remuneration		
Directors' sitting fees and proposed remuneration (note 7)	166	200
Remuneration to key members of management during the year		
Salaries and other benefits	1,014	881

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

	2020	2019
	RO '000	RO '000
Sales incentive payable	12	16

27 Asset held for sale

Assets held for sale represents land acquired by the Company in part settlement of amounts due by the 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 subsequently expected to be sold in the year 2021. The Company has recently valued this property on 05 November 2020 at RO 1.55 million. The property is based in Muscat at Ghala Heights, Wilayat Bausher.

28 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.

29 Voluntary reserve

In addition to the existing allowance for non-performing assets, the Company is maintaining a voluntary reserve of RO 3 million for non-performing assets including an amounts of 922K as required by CBO guidelines towards provisions held at the time of acquiring land in part settlement of amounts due by borrowers to support the growth of the Company. This reserve is non distributable in nature and transfer out of this reserve requires approval of the Board of Directors.

National Finance Company SAOG
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

30 Financial instruments by category

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

2020	Amortized cost
	RO'000
Financial assets	
Cash and cash equivalents	5,407
Net investment in finance leases	348,954
Working capital finance and factoring receivables	53,390
Other receivables	231
Statutory deposit	250
Total financial assets	408,232

2020	Amortized cost
	RO'000
Financial liabilities	
Bank overdrafts and short-term loans	98,909
Creditors and accruals	8,005
Corporate deposits	24,834
Long term loans	182,884
Total financial liabilities	314,632

2019	Amortized cost
	RO'000
Financial assets	
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

31 Maturity analysis of assets and liabilities

The table below analyses the contractual maturities of assets and liabilities at the reporting date. The amounts show gross undiscounted cash flows.

At 31 December 2020	Up to 1 month	> 1 month to 1 year	> 1 year	Non-fixed maturity	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Assets					
Cash and cash equivalents	5,407	-	-	-	5,407
Statutory deposit	-	-	-	250	250
Investment in finance leases, working capital and factoring receivables	15,955	125,328	407,040	-	548,323
Advances and prepayments	-	2,452	-	-	2,452
Assets held for sale	-	1,500	-	-	1,500
Goodwill	-	-	-	5,950	5,950
Intangible asset	-	-	-	1,134	1,134
Property and equipment	-	-	-	7,095	7,095
Total assets	21,362	129,280	407,040	14,429	572,111
Equity and liabilities					
Total equity	-	-	-	108,659	108,659
Liabilities:					
Bank borrowings and fixed deposits	57,516	208,442	49,234	-	315,192
Creditors and accruals	5,089	3,214	-	-	8,303
End of service benefits	-	-	-	666	666
Tax liabilities	-	1,687	-	190	1,877
Total equity and liabilities	62,605	213,343	49,234	109,515	434,697
Liquidity gap	(41,243)	(84,063)	357,806	(95,086)	
Cumulative liquidity gap	(41,243)	(125,306)	232,500	137,414	

At 31 December 2019	Up to 1 month	> 1 month to 1 year	> 1 year	Non-fixed maturity	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Assets					
Cash and cash equivalents	7,947	-	-	-	7,947
Statutory deposit	-	-	-	250	250
Net investment in finance leases, working capital and factoring receivables	14,847	149,844	397,228	-	561,919
Advances and prepayments	-	3,403	-	-	3,403
Assets held for sale	-	1,500	-	-	1,500
Goodwill	-	-	-	5,950	5,950
Intangible asset	-	-	-	1,405	1,405
Property and equipment	-	-	-	6,203	6,203
Total assets	22,794	154,747	397,228	13,808	588,577
Equity and liabilities					
Total equity	-	-	-	108,112	108,112
Liabilities:					
Bank borrowings and fixed deposit	38,689	220,288	88,900	-	347,877
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	41,072	225,050	88,900	109,127	464,149
Liquidity gap	(18,278)	(70,303)	308,328	(95,319)	
Cumulative liquidity gap	(18,278)	(88,581)	219,747	124,428	

The Company had unutilized credit facilities amounting to RO 25.42 million available as on 31 December 2020 (31 December 2019 – RO 44.8 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 a going concern basis.

32 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. The amounts show gross undiscounted cash flows.

At 31 December 2020	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		**-**	**-**	**-**	**-**	**5,407**	**5,407**
Statutory deposit	**1.5%**	**-**	**-**	**-**	**250**	**-**	**250**
Investment in finance leases, working capital and factoring receivables	**6.5%-17%**	**15,955**	**125,328**	**407,040**	**-**	**-**	**548,323**
Total assets		**15,955**	**125,328**	**407,040**	**250**	**5,407**	**553,980**
Liabilities							
Bank borrowings and fixed deposits	**2.70% - 6.35%**	**57,516**	**208,442**	**49,234**	**-**	**-**	**315,192**
Creditors and accruals		**5,089**	**3,214**	**-**			**8,303**
Total liabilities		**62,605**	**211,656**	**49,234**	**-**	**-**	**323,495**
Interest rate sensitivity gap		**(46,650)**	**(86,328)**	**357,806**	**250**	**5,407**	**230,485**
Cumulative interest rate sensitivity gap		**(46,650)**	**(132,978)**	**224,828**	**225,078**	**230,485**	

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 and factoring receivables	6.5% - 17%	14,847	149,844	397,228	-	-	561,919
Total assets		14,847	149,844	397,228	250	7,947	570,116
Liabilities							
Bank borrowings and fixed deposits	4.00% -6.25%	38,689	220,288	88,900	-	-	347,877
Creditors and accruals		-	-	-	-	5,138	5,138
Total liabilities		38,689	220,288	88,900	-	5,138	353,015
Interest rate sensitivity gap		(23,842)	(70,444)	308,328	250	2,809	217,101
Cumulative interest rate sensitivity gap		(23,842)	(94,286)	214,042	214,292	217,101	

33 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 2019 RO '000	As stated previously 2019 RO '000
Property and equipment (note 13)	6,203	6,328
Intangible assets (note 14)	1,405	1,280
	7,608	7,608

	As stated currently 2019 RO '000	As stated previously 2019 RO '000
Depreciation (note 13)	550	631
Amortisation (note 14)	338	257
	888	888

Independent auditors' report on pages 38-42.