

شركة
تأجير التمويل
Taageer Finance
Co. S.A.O.G

ANNUAL REPORT 2016



His Majesty Sultan Qaboos Bin Said
Our nation's prime mover for development



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“To be a
leading
finance
company in
the region”

Vision

Mission

“To play an
instrumental role in
the development
of the Corporate
and SME sector
while cultivating
entrepreneurship
culture in society”

COMPANY INFORMATION

Scope of Activities

Auto Finance for passenger cars, commercial vehicles (prime movers, trucks, trailers, pickups, etc.) Industrial equipment and machinery, Home appliances, furniture, computer and other electronic items, Heavy Equipment, plant and machinery (dozers, shovels, crushers, cranes, etc.), Working capital through debt factoring / bills discounting of receivables Corporate deposits, "Al Amthal" Auto Finance, "Al Hal" consumer loans, "Al Sahal" insurance.

Bankers

Bank Muscat (SAOG)
 Bank Dhofar (SAOG)
 National Bank of Oman (SAOG)
 Oman Arab Bank (SAOC)
 Ahli Bank (SAOG)
 Bank Sohar (SAOG)
 Habib Bank Ltd
 Qatar National Bank (Oman)

Regulatory Authority

Central Bank of Oman
 Capital Market Authority

Statutory Auditors

PriceWaterhouseCoopers LLC

Internal Auditors (Out-Sourced)

Moore Stephens LLC

Legal Advisors

Rajab Al Khathiri & Associates

Registered Office

P.O. Box 200, Postal Code 136, MGM,
 Sultanate of Oman

Head Office - Al Khuwair

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Branch Offices

AL KHUWAIR

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HATAT COMPLEX

Tel : (+968) 24564561

Fax : (+968) 24564629

SOHAR

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Fax : (+968) 26845535

BARKA

Tel : (+968) 26883603

Fax : (+968) 26883619

NIZWA

Tel : (+968) 25414420

Fax : (+968) 25414425

SALALAH

Tel : (+968) 23296288

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BOARD OF DIRECTORS



Faisal Khamis Al Hashar
Chairman



Engr. Fahad Musaed Al Ahmadi
Vice Chairman



Ali Ziraknejad
Director



Hussain Mohamed Redha
Director



Saleh Nasser Al Riyami
Director



Anwar Hilal Al Jabri
Director



Khalid Mohamed Al Hamoodah
Director



Mansoor Hamood Al Amri
Director

Saleh Nasser Al Riyami

Chairman

Mansoor Hamood Al Amri

Member

Khalid Mohamed Al Hamoodah

Member

**Audit & Risk
Committee**

**Executive, Nomination &
Remuneration Committee**

Anwar Hilal Al Jabri

Chairman

Eng. Fahad Musaed Al Ahmadi

Member

Ali Ziraknejad

Member

Hussain Mohamed Redha

Member

MANAGEMENT



Mohammed Redha bin Ahmed Jawad
Chief Executive Officer



V.V. Suresh Kumar
General Manager
Marketing & Business Development



Mohammed Ali Ibrahim Al Maimani
Assistant General Manager
Operations and Controls



N.V.H. Sastry
Financial Controller



Mohammed bin Bader Al Busaidy
Senior Manager
HR & Administration

DIRECTORS' REPORT



Dear Shareholders,

On behalf of the Board of Directors of Taageer Finance Company SAOG, I am pleased to present our audited financial statements for the year ended 31st December, 2016. The financial results for the year 2016 indicate continues growth in the performance of the company despite economy challenges.

Company's Performance for the Year 2016

Your Company has registered a Profit after Tax of RO 4.474 million in 2016 as against RO 4.421 Million in 2015. The Company's net leasing portfolio has grown by 20.19% from RO 126.686 million as at 31st December 2015 to RO 152.264 Million as on 31st December, 2016 due to marketing efforts and improvement in operations efficiency to gain market share and to continue to focus on customer service and adopted an aggressive collection and recoveries strategy. Your company has increased its market share even during the current challenging economic conditions due to high volatility in oil prices over the past two years and the tight liquidity conditions. The borrowing costs also increased considerably during the year 2016.

Outlook for 2017

The year 2017 is expected to be a very challenging year for the banking & finance sectors as the uncertainty in oil prices continue to be a major concern for the economy.

Government has announced a cut in oil production in order to support OPEC's initiatives to reduce oil glut and boost the oil prices to increase revenues from its energy sector. The government has also announced its annual budget for the year 2017. The budget indicates some austerity measures aimed at boosting fiscal revenues.

Proposed dividend

The Board of Directors is pleased to recommend a cash dividend of 9.5% (RO 2.409 million) subject to approval by shareholders at the Annual General Meeting to be held on March 27, 2017.

Paid up capital

With a paid up share capital of RO 25.359 million as at 31st December 2016, your Company is well capitalized and in compliance with the guidelines of the Central Bank of Oman.

Sudan Investment

Your company holds a 5% stake in equity capital of The Arab Leasing Company, Sudan, with a carrying value of RO 582K as at 31st December, 2016.

Change in the Composition of the Board

During the year 2016, the Audit Committee was reconstituted as Audit & Risk Committee and the Executive Committee was reconstituted as Executive, Nomination and Remuneration Committee with the same Board members in line with the new Code of Corporate Governance introduced by the Capital Market Authorities effective from July 2016.

There was a change in nomination of Director representing Iran Foreign Investment Company (IFIC) in the Board of Directors of your Company during December-2016.

Strengthening Human resources

Your company has continued to invest in Human Resources to sustain its growth in assets.

The company also provided training courses to support its employees to improve their skill levels to enable them to provide better customer services and progress in their careers to take up more responsibilities in the company.

Taageer considers its employees as being an integral part of the success of its business model. It constantly looks at the development goals of its employees to enable them to enhance their abilities and achieve measurable and sustainable results.

Corporate Governance

Your company is committed to adhering to the highest standards of Compliance and Corporate Governance in line with the regulations issued by the Central Bank of Oman and the Capital Market Authority. During the year, the Board of Directors and the management team attended, well structured awareness sessions on the new Code of Corporate Governance which is effective from July 2016. A separate report on Corporate Governance is enclosed.

Acknowledgement

On behalf of the Board of Directors, I wish to express sincere gratitude to His Majesty Sultan Qaboos bin Said for his vision and wise leadership.

I would also like to take this opportunity to express our sincere appreciation and acknowledgement for the guidance and support from the Central Bank of Oman, Capital Market Authority and Muscat Securities Market. We are also grateful to our shareholders, bankers, dealers and customers for their continued trust, confidence and support. Finally, the Board would like to appreciate and thank the management and the staff for all their hard work and efforts.

On Behalf of the Board of Directors

Faisal Al Hashar

Chairman

MANAGEMENT REPORT



Taageer Finance has completed sixteen years of successful operations, offering a comprehensive range of financial products. The company has established a strong market presence. The year 2016 was full of economic, financial and business challenges. Low oil prices will continue to pose challenges for the economy and businesses. Over the past years, Taageer Finance has increased its market share and has progressed very well to meet the customers' expectations by a team of its dedicated employees towards Company's Vision "to be a leading Finance company in the region" and its Mission "To play an instrumental role in the development of the Corporate and SME sector while cultivating entrepreneurship culture in society" and delivering best in class service to the stakeholders. The following management discussion and analysis of the key financials are outlined here in our Management report.

Economic outlook

The recent decision by the Government to reduce its oil production in line with OPEC's decision to reduce oil glut. This could help stabilize the oil prices and contain the deficit in the budget for the year 2017. Therefore as per Oman's budget for 2017, oil revenue is projected to decline to reflect a reduction

in oil production to match the recent OPEC production agreement. During the year 2016, the Government was faced with tough challenges due to substantial increase in budget deficit. The steep decline in global oil prices and government revenues has caused tight liquidity conditions in the banking system.

On the positive note, the Government has taken several initiatives to address the decline in revenues. It has started National program for enhancing economic diversification (Tanfeedh). In line with the ninth 5 – year plan, the resulted projects and initiatives under Tanfeedh program cover three main sectors (manufacturing, logistics and tourism), as well as two economic enablers (finance and employment). If realized, these initiatives should boost GDP by more than RO 1.7 billion and create an additional 30,000 jobs for Omani nationals.

The government also believes that Privatization will drive economic growth. To achieve its growth objectives, the government will have to accelerate the privatization process during 2017 by transferring its interest in government assets to the private sector.

Outlook for 2017

Due to high deficit of RO 5.3 billion for the year 2016, the Government has initiated controls and fiscal discipline to look for sustainability through diversification as explained in the Economic outlook. In view of its excellent reputation, the government is confident of raising resources within and outside the country to counter the fiscal pressures. The real GDP growth rate is expected to reduce to around 1.1% and gradually increase thereon to 2%. Strategic moves and fiscal measures will go a long way towards addressing the challenging economic conditions.

Despite challenges, the budget for the year 2017 has maintained development spending levels while limiting public spending in other areas. The existing key infrastructure projects, under execution, would continue to progress till completion.

Potential of Financial Sector

Financial Institutions would continue to provide financing to Small and Medium

Enterprises (SMEs) by identifying potential businesses.

Oman's banking sector has shown growth of about 12% in private sector credit during 2016, and a marginal increase of 5% in its deposits.

Taageer Finance recorded a significant growth of 20% in its business. The implementation of IFRS 9 is mandatory from Jan 2018, which requires to quantify the expected loan losses instead of providing based on incurred losses, the Company has appointed external consultant to assist in arriving at the methodology. Also the Company is working closely with the regulators in implementation of IFRS 9. The impact, if any, due to the revision of loan loss estimation shall be updated to the regulators and during the Q3 unaudited financials for 2017.

Return on shareholders' funds (RONW)

The Company has posted a return of 12.65 % on shareholders' funds.

The RONW is the result of the following components



Business volumes and asset growth

Business volumes and asset size have grown by 8.48 % and 20.22 % respectively in 2016.

Cost of funds

The Company continues to manage its borrowing costs and has made all efforts to efficiently manage and negotiate borrowings to maintain over-all bottom-line. During the year 2016, the borrowing costs increased considerably in view of lending rates by the commercial banks due to tight liquidity conditions in the banking sector. The interest rates will be closely monitored during the year 2017.

Performance snapshot



Key indicators of the Company's operating performance over last 5 years are as follows:

RO' 000

Particulars	2016	2015	2014	2013	2012
Share capital	25,359	25,359	25,359	23,700	21,667
Net worth	36,402	34,312	32,427	31,123	29,386
Net investment in lease	152,264	126,686	107,306	101,958	92,000
Total borrowings	111,808	89,253	71,556	67,299	56,727
Gross income	13,923	11,893	10,908	10,445	10,266
Profit after tax	4,474	4,421	3,782	3,924	3,905

Branch network

Currently the company has six branches; at Al Khuwair, Hatat Complex, Sohar, Nizwa, Barka and Salalah.

Risks and concerns

Credit risk

The focus on credit risk is a key part of the Risk Management framework as indicated by the Central Bank of Oman. Measures such as loan review mechanism, sectoral caps on lending, analysis of non-performing assets and risk scoring models help the management to manage credit risk.

The Company has completed a review of its credit policies and procedures, in line with its five-year strategy plan, to balance the risk appetite with the requirements of its customers. In doing this it has taken on board the prevailing economic conditions.

Interest rate risk

Benchmark based lending products are usually offered to retail & SME customers. The Company, has however, offered an interest rate re-pricing clause to corporate customers. The Company has monthly ALCO meetings to review the loan pricing and work towards mitigating the interest rate risk by suitably pricing the loans and also the product mix.

Liquidity risk

Liquidity risk arises from the inability of the Company to pay its liabilities when they fall due.

In the lending business, liquidity risk often exists due to an element of mis-match in the cash flow timings of assets and liabilities. A strategic move to lock-in long term credit was made during the year 2016. Taageer has

also reduced this risk by ensuring that it has adequate lines of credit available from its lenders which is over and above its normal business pattern.

Other risks

The Company has insurance cover in place to protect its assets.

It has plans in place to ensure that it continues to run smoothly in the unlikely event of a sudden gap in the leadership level of management.

The Company is constantly assessing and updating its operating policies and procedures to identify areas of improvement, standardization and rationalization of its activities.


Business Continuity and Disaster Recovery

Your Company has put in place a cohesive Disaster Recovery and Business Continuity Plan to ensure that we are prepared for every eventuality.

Acknowledgement

On behalf of the management, I thank the Chairman, Vice-Chairman of the Board, Chairman of Audit Committee, Chairman of the Executive committee and Board members for their continuous guidance.

We also take this opportunity to thank our shareholders, our employees and regulatory bodies for their continuous support.



Mohammed Redha A. Jawad

Chief Executive Officer




Corporate Social Responsibility



REPORT OF FACTUAL FINDINGS

TO THE SHAREHOLDERS OF TAAGEER 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 Taageer Finance Company SAOG (the company) as at and for the year ended 31 December 2016 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 you in complying with the requirement 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 obtained the detailed list of areas of non-compliance identified by the company's Board of Directors with the Code, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes and compliance reports of the Company 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 or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying corporate governance report.
6. Had we performed additional procedures or had we performed an audit in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.
7. Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report included in its annual report for the year ending 31 December 2016 and does not extend to any financial statements of Taageer Finance Company SAOG taken as a whole.


 12 March 2017
 Muscat, Sultanate of Oman



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Chartered Accountants Licence No. APC/17/2015, Management Consultants Licence No. OPC/11/2015, Commercial Register No. 1230865

CORPORATE GOVERNANCE

In accordance with the Capital Market Authority (CMA) guidelines, we are pleased to present the Corporate Governance Report for the year ended 31 December 2016. The Auditors, PricewaterhouseCoopers, have issued a separate Report on the Corporate Governance.

1. Company's philosophy

Taageer's philosophy of corporate governance is aimed at promoting trusteeship, transparency, empowerment, control and ethical corporate citizenship. Taageer is committed to working with its stakeholders to improve the economic development. We strive to achieve this by implementing corporate governance in compliance within guidelines set by the Central Bank of Oman and the Capital Market Authority.

2. The Board of Directors

The present Board of Directors were appointed in the Annual General Meeting held on 19 March 2015 for a period of three years. The Board of Directors has formed two Committees namely, The Audit Committee and The Executive Committee. During the year 2016, the Audit Committee was reconstituted as Audit & Risk Committee and Executive Committee as Executive, Nomination & Remuneration Committee.

Composition of the Board of Directors: (in accordance with Article 1 of Code of Corporate Governance)

Name of Director / Entity Represented	Position	
Mr. Faisal Al Hashar Oman Investment Fund Non-Independent & Non-Executive	Chairman	(elected w.e.f 19th March 2015)
Eng. Fahad Al Ahmadi The Arab Investment Company (TAIC), Saudi Arabia Non-Independent & Non-Executive	Vice Chairman	(re-elected w.e.f 19th March 2015)
Mr. Ali Ziraknejad Iran Foreign Investment Company, Iran Non-Independent & Non-Executive	Director	Re-elected w.e.f 19th March 2015. Replaced from 27th December 2016
Dr. Vahid Sharif Iran Foreign Investment Company, Iran Non-Independent & Non-Executive	Director	(from 27th December 2016)
Mr. Saleh bin Nasser Al Riyami Representing Self Independent & Non-Executive	Director	(re-elected w.e.f 19th March 2015)

Name of Director / Entity Represented	Position	
Mr. Anwar Hilal Al Jabri Representing Self Independent & Non-Executive	Director	(elected w.e.f 19th March 2015)
Mr. Hussain Mohamed Redha Representing Self Independent & Non-Executive	Director	(re-elected w.e.f 19th March 2015)
Mr. Mansoor Hamood Al Amri Ministry of Defence Pension Fund Non-Independent & Non-Executive	Director	(elected w.e.f 19th March 2015)
Mr. Khalid Mohamed Al Hamoodah Representing Self Independent & Non-Executive	Director	(elected w.e.f 19th March 2015)

Board of Directors held 5 meetings during the year. The details of members' participation in the meetings along with their Directorships in other companies in Oman are as follows:

Name of the Director	Position	Board Meeting attended	Whether attended last AGM	Directorships in other Companies	Position in other Company
Mr. Faisal Al Hashar	Chairman	5	Yes	Rural Area Electricity SAOC Electricity Holding SAOC	Chairman
		17-02-2016			
		26-04-2016			Director
		19-07-2016			
		19-10-2016			
20-12-2016					
Eng. Fahad Al Ahmadi	Vice Chairman	5	Yes	---	---
		17-02-2016			
		26-04-2016			
		19-07-2016			
		19-10-2016			
20-12-2016					
Mr. Ali Ziraknejad	Director	5	Yes	---	---
		17-02-2016			
		26-04-2016			
		19-07-2016			
		19-10-2016			
20-12-2016					

Name of the Director	Position	Board Meeting attended	Whether attended last AGM	Directorships in other Companies	Position in other Company
Mr. Saleh bin Nasser Al Riyami	Director	5 17-02-2016 26-04-2016 19-07-2016 19-10-2016 20-12-2016	Yes	Oman Ceramic Co. (SAOG) Al Madina Takaful SAOG	Vice-Chairman Director
Mr. Anwar Hilal Al Jabri	Director	4 17-02-2016 19-07-2016 19-10-2016 20-12-2016	No	Ahli Bank SAOG Ominvest SAOG National Life & General Insurance SAOC Dhofar Power Company SAOC	Director Director Chairman Director
Mr. Hussain Mohamed Redha	Director	5 17-02-2016 26-04-2016 19-07-2016 19-10-2016 20-12-2016	Yes	National Life & General Insurance Company (SAOC)	Director
Mr. Mansoor Hamood Al-Amri	Director	5 17-02-2016 26-04-2016 19-07-2016 19-10-2016 20-12-2016	Yes	---	---
Mr. Khalid Mohamed Al Hamoodah	Director	5 17-02-2016 26-04-2016 19-07-2016 19-10-2016 20-12-2016	No	Muscat Gases SAOG NBO GCC Fund Muscat Fund Sembcorp Salalah Power & Water Company SAOG	Director Director Director Director
Dr. Vahid Sharif	Director	NIL	No		Director

3. Audit & Risk Committee

The main role of the Audit & Risk Committee is to:

- Assist the Board in assuring the integrity and credibility of the financial reporting process;
- Review the company's internal financial controls and the company's internal control and risk management systems;
- Monitor and review the effectiveness of the company's internal audit function;
- Selecting and evaluating the External Auditors.
- Devising a risk management plan, obtaining approval by the board and following up its implementation. The plan shall, at minimum, include the following:
 1. Key risks which the company is exposed to and their probability (risk appetite).
 2. Mechanisms for identification, measurement and monitoring of these risks.
 3. Mechanisms for periodic examination, detection and reporting of risks (especially new risks).
 4. Means to mitigate risks, if avoidance is not possible.

The committee may seek the assistance of any other entity on a consultancy basis to assist the committee in performing its duties.

The committee shall submit its recommendations to the board at the time determined by the board.

During the year 2016, the company appointed Moore Stephens LLC to conduct the Internal Audit of the company along with an in-house Internal Auditor.

The Internal Audit work plan is drawn up in consultation with the Audit & Risk Committee. Internal Audit is done on a quarterly basis and a report is submitted to the Audit & Risk Committee for their review. The Chairman of the Audit & Risk Committee presents to the Board the proceedings of the Audit & Risk Committee meeting. The audit covers areas of operations of the company as per the approved internal audit work plan. The Management has responded to the various issues raised by the Internal Auditor and submits a compliance report on the same.

The Audit & Risk Committee comprises of three Board members. Audit & Risk Committee held four meetings during the year. Details of the members and their attendance in the meetings held are as follows:

Name of the Director	Position	Meetings attended	Date of appointment
Mr. Saleh bin Nasser Al Riyami	Chairman	4	Nominated on 19th March 2015
Mr. Mansoor Hamood Al-Amri	Member	4	Nominated on 19th March 2015
Mr. Khalid Mohamed Al Hamoodah	Member	4	Nominated on 19th March 2015

4. Executive, Nomination & Remuneration Committee

The Executive, Nomination & Remuneration Committee comprises of four Board members. The main role of the Executive, Nomination & Remuneration Committee is to;

- Review, recommend and approve / reject credit proposals within specified financial limits;
- Review and recommend the annual budget to the BOD for its approval;
- Review company's monthly management accounts, its performance vs budget, financial management and operations of the company and recommend to the BOD appropriate action on the issues arising there from;
- Recommend appointment / replacement of senior management of the company (other than CEO, COO and Head of Internal Audit), review compensation related matters recommended by the management and accord approval (within the overall budget sanctioned by the Board).

Executive, Nomination & Remuneration Committee held four meetings during year. Details of present members and their attendance in the meeting held are as follows:

Name of the Director	Position	Meetings Attended	Date of Appointment
Mr. Anwar Hilal Al Jabri	Chairman	4	Nominated on 19th March 2015
Eng. Fahad Al Ahmadi	Member	4	29 March 2009
Mr. Ali Ziraknejad	Member	4	Nominated on 19th March 2015
Mr. Hussain Mohamed Redha	Member	4	Nominated on 19th March 2015

5. Evaluation of Board Members

Appraising the performance of the board impartially and independently by a third party appointed in the forthcoming Annual General Meeting in the accordance with a benchmark and standards set by the board or the general meeting. The external or internal auditors of the company cannot not be engaged for this purpose. This review shall be conducted on an annual basis henceforth.

Brief Profile of Directors

Mr. Faisal Al Hashar

Faisal Al Hashar, Chairman of the company holds a B.S. degree in Marketing from North West Missouri University, U.S.A. His experience stretches over a period of over 30 years; both in the Public Sector and the Private Sector companies and organizations. In the Public Sector, he held the position of Director General till September, 1997, and in the

Private Sector, his last position was as the Managing Director of Shell Oman Marketing Co. SAOG till June 2010. He also held the position of a board member in 3 consecutive terms in Shell Oman from 2002, and currently is the Chairman of the Board of the Rural Areas Electricity Company (SAOC).

Eng. Fahad Al Ahmadi

Eng. Fahad Al Ahmadi, Vice Chairman of the Company was the Founder Director having been with the Board since its inception. Eng. Fahad is the Director of Services Projects of The Arab Investment Company (TAIC), Riyadh, Saudi Arabia and has a career with TAIC spanning over 20 years. He has been holding key positions in TAIC Riyadh. He is also the Chairman, Vice-Chairman and Board member of several Projects in different sectors in several Pan Arab countries.

Eng. Fahad is a Bachelor of Engineering from KFUPM and MBA holder.

Mr. Ali Ziraknejad

Mr. Ali Ziraknejad, Director of the Company, was inducted to the Board in October 2007. Mr. Ziraknejad has completed his Master's degree in Finance and has done course in Financial Analysis and Management at the Iran Center for Management studies through Harvard Graduate School of Business Administration.

Mr. Ali Ziraknejad has a wide experience having worked as Managing Director in Europaesch Iranische Handels Bank AG, Hamburg, Germany. He has also worked with Bank of Industry and Mine, Tehran, Iran and with the World Bank, Washington DC. Presently, he is Chairman of the Board of Directors of Tourism Bank Tehran, Iran and Managing Director & Member of the Board of Iran Cultural Heritage and Tourism Investment Group Co.

Mr. Saleh Nasser Al Riyami

Mr. Saleh Nasser Al Riyami, Director of the Company, has a Bachelor in Business Administration (Management), American College – Atlanta, Georgia. He is on the Board of Oman Ceramic Company SAOG as Director & Executive Committee Chairman. Mr. Riyami has over 20 years of experience in the areas of Finance and Investment.

Mr. Anwar Hilal Hamdoon Al Jabri

Mr. Anwar Al-Jabri is a Director of the company with over 16 years of experience in investments, banking and financial services. He holds a position of an Investment Director at Oman Investment Fund (OIF), a Sovereign Wealth Fund of the Sultanate of Oman. He serves in various public and non-public company boards locally and internationally. Previously, he worked for Oman Refinery Company and the Central Bank of Oman holding various senior posts in Investment and Finance fields. He holds a Bachelor's of Science in Accounting Degree (BS.A), Masters of Business Administration (MBA), and Certified Public Accountant (CPA).

Mr. Mansoor Hamood Al-Amri

Mr. Mansoor Al-Amri, Director of the Company, has a Master degree of Projects Management in Business, University of Southern Queensland, Australia, 2008 and Bachelor of Science (Production & Operation Management): Sultan Qaboos University, August 1998.

He has an experience in the Defence Procurements for over 16 years, focusing on the negotiations and contracts management. He is currently the Deputy Director for Royal Navy of Oman (RNO) Contracts in the Directorate of Contracts and Legal Affairs, Office of the General Secretary, Ministry of Defence.

Mr. Khalid Mohamed Ali Al Hamoodah

Mr. Khalid Mohammed Ali Al Hamoodah is currently the Assistant Executive President of Diwan of Royal Court Pension Fund and holds a degree in business administration from Coventry University, UK. He has over 20 years' of experience in variety of leadership and strategic positions. He has been serving Diwan of Royal court for more than 19 years in different capacities and accumulated experience in operational management, administration, project execution, and investments in various asset classes especially in real estate. Included in his responsibility is spearheading the investment department of the Pension Fund. He also plays an integral part in the investment committee of the Pension Fund. Prior to Diwan of Royal court he had a small stint in Ministry of Oil and Gas.

Currently, he is serving as board member in Muscat GAS SAOG (Oman), Al Masah Capital Diamond Lifestyle Fund (UAE), NBO GCC Fund (Oman) and Muscat Fund (Oman) managed by Bank Muscat. He is also the member of executive committee of Muscat Gas SAOG.

Mr. Hussain Mohamed Redha Ali Al Lawati

Mr. Hussain Mohamed Redha Ali Al Lawati, Director of the Company holds a Bachelors' degree in Accountancy from the University of Carleton, Canada. He is also a Chartered Financial Analyst (CFA).

He has an experience in the Private Equity and Investment Management industry for over 10 years, focusing on the financial services sectors. He is currently an Investment Manager with Oman Investment Fund. He is also the member of the Board, HR and Executive Committee of National Life and General Insurance Company, member of the Board and Investment Committee of Petro Vietnam Insurance Company, Vietnam, Board member of Retail Arabic International, UAE and Board and Audit Committee member of a newly formed company in Oman called Strategic & Precious Metal Processing Company.

Dr. Vahid Sharif

Dr. Vahid Sharif, Director of the Company, was inducted to the Board in December 2016. Dr. Vahid has completed his Master's degree in Civil Engineering and PhD in Civil Engineering from International Institute of Earthquake Engineering.

Dr. Vahid has a wide experience and is working with Iran Foreign Investment Company (IFIC). He has worked in various organization in Iran which include Parsian Bank, Oil Pension Fund, Oil Pension Investment Company, Arman Investment Bank and Export Development Bank of Iran.

6. Brief Profile of Management

Mohammed Redha A. Jawad, Chief Executive Officer

Mohammed Redha A. Jawad is the Chief Executive Officer of the Company. He holds a Masters degree in Business Administration (Marketing) from the Hailifax University, USA. Mohammed Redha has more than 33 years of experience in the banking sector in senior level positions covering areas like Corporate Banking, Retail Management, Business Development, Risk Management etc.

V. V. Suresh Kumar, General Manager – Marketing & Business Development

V. V. Suresh Kumar is the General Manager – Marketing & Business Development of the company. He has 25 years of experience and has worked in leading NBFC's and Banks in India and Oman. He has completed his Management studies specializing in Marketing & Finance from Bharathidasan Institute of Management (BIM) - Trichy, India.

In India, he worked in NBFC's such as Shriram Group of Companies, 20th Century Finance Corporation Ltd., GMAC-TCFC Finance Ltd., in various capacities. Prior to joining Taageer Finance Company SAOG, he was the Head - Corporate Banking (General Coverage) in Ahli Bank SAOG, Oman.

Mohamed Ali Ibrahim Al Maimani, Asst. General Manager – Operations & Control

Mohamed Ali Ibrahim Al Maimani, has more than 23 years of experience in banking sector in different senior position such as Branch network, Human Resources, Loan Management etc. He holds a level 7 Diploma in Strategic and leadership Management along with a banking Diploma from the Arab Academy for Financial Studies, Jordan. He is also recognized as certified Chartered Manager from Chartered Management Institute, UK.

N.V.H. Sastry, Financial Controller

N.V.H. Sastry is the Financial Controller of the company and is a Member of the Institute of Chartered Accountants of India and B.Sc. (Hons.) in Science from Osmania University, Hyderabad, India. Has more than 25 years of post-qualification experience of which

15 years has been in the leasing industry and the rest in the fields of IT, Investments, Real Estate and Manufacturing sectors. Has varied experience in Managerial Capacity spanning areas like Finance, IT, Strategic planning and Marketing & Business Development.

Mohammed Bin Bader Bin Hilal Al Busaidi, Sr. Manager Human Resources and Administration

Mohammed Bin Bader Bin Hilal Al Busaidi is the Sr. Manager Human Resources and Administration for the company. Mohammed holds a Master of Business Administration degree at the University of California, San Diego, USA and a Certificate in Productivity Development Program from the Association of Overseas Technical Scholarships in Japan and has more than 33 years of working experience in the Ministry of Commerce and Industry. He has received specialized training in Human Resources Management for Banking and Finance Sciences at the Arab Academy. Al Busaidi joined the company since January 2002.

7. Remuneration Matters

The Board of Directors has recommended Director's remuneration of RO 60,000 for the year 2016 (2015 – RO 56,000) in line with the provisions of Article 101 of the Commercial Companies Law of 1974, as per the requirements of Capital Market Authority. The Board was paid sitting fees as per details given herein under as approved in the last AGM held on 28 March 2016.

In the case of institutional representatives on the board, payment of sitting fees have been made to the Director or directly to the institution whose nominee is represented on the Board as per the instruction from the Director or decision of the institution.

The Company held 5 Board meetings during 2016, and RO 52,000 (2015 - RO, 60,000) has been paid towards Directors' sitting fees.

During 2016, 4 Audit & Risk Committee meetings were held and RO 12,000 (2015 – RO 15,000) was paid towards Audit Committee sitting fees.

During 2016, 4 Executive, Nomination & Remuneration Committee meetings were held and RO 16,000 (2015 – RO 11,000) was paid towards Executive Committee sitting fees.

During the year RO 430,322 (2015 – RO 372,819) was paid as salary and related benefits to the five senior most officers of the company. Employment contracts with these officers are in accordance with the labour laws of the Sultanate of Oman.

8. Process of Nomination of the Directors

The company follows the provisions of the Commercial Companies Law and the guidelines from the Central Bank of Oman in respect of nomination of the members of the Board of Directors. The Company is in the process of appointing external consultants for the Independent Evaluation of Board of Directors as well developing the Professional Code of Conduct for the Board and Executive Management.

9. Means of Communication with the Shareholders

The Company publishes quarterly accounts in two national newspapers and also submits the same to the Muscat Securities Market. Annual report is mailed to all the Shareholders. And other relevant information at Muscat Securities Market (MSM) website (www.msm.gov.om).

10. Market Price Data

High/Low price and index

The shares of the company are listed on the Muscat Securities Market. Details of market price data during 2015 are as follows:

Month	Market Price (RO)		Volume Traded	Index	
	High	Low		MSM	Sector
Jan-16	0.130	0.130	7,332	5,179	6,035
Feb-16	0.130	0.130	400,483	5,395	6,648
Mar-16	0.140	0.130	314,462	5,467	6,944
Apr-16	0.135	0.128	255,832	5,943	7,715
May-16	0.135	0.127	4,384,644	5,811	7,447
Jun-16	0.128	0.122	100,900	5,777	7,267
Jul-16	0.126	0.126	181,045	5,844	7,483
Aug-16	0.126	0.120	2,109,528	5,735	7,363
Sep-16	0.119	0.110	2,046,884	5,726	7,373
Oct-16	0.115	0.108	1,654,791	5,481	7,104
Nov-16	0.118	0.108	1,813,611	5,488	7,178
Dec-16	0.122	0.116	982,315	5,783	7,665

Distribution of shares

Name of the shareholders (holding more than 5%)	Percentage (%)	No. of shares
Oman Investment Fund	33.63	85,287,298
The Arab Investment Co. SAA	18.79	47,637,994
Iran Foreign Investment Co.	12.49	31,685,320
Diwan of Royal Palace- Pension Fund	6.78	17,183,808
Oman Investment & Finance Co. SAOG	6.15	15,599,154

11. Statutory Auditors

PwC is a global network of firms operating in 157 countries with more than 223,000 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 4,000 people. (www.pwc.com/me).

PwC has been established in Oman for over 45 years with 4 Partners, including one Omani national, and over 140 professionals. Our experts in assurance, tax and advisory services are able to combine internationally acquired specialist consulting and technical skills with relevant local experience.

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

Audit Fees

During the year 2016, an amount of RO 10,700 has been paid to the statutory auditors or is due to them. No non audit services were provided.

Non-Compliance

Other than the stated below, Taageer is not aware of any other non-compliance with the law, regulation, or any other requirement of a statutory authority, nor has it been subject to penalty for any breach as on 31 December 2016.

During the year the company has paid RO. 9,800 to Central Bank of Oman (CBO), RO 1,300 to Capital Market Authority (CMA) as penalties which were not recoverable from the customers.

During the year we have reported a classification of financial obligation of one of the senior members of the management as required under circular FM-15 of CBO.

In respect of forwarding the Board Agenda for October-2016 and December-2016 there was a delay of one day on both the occasions.

In respect of forwarding the Board Minutes for October-2016 and December-2016 there was a delay of one day on both the occasions 30 days and 6 days.

The Executive Committee was reconstituted as Executive, Nomination and Remuneration Committee on 19th July 2016 and hence could not have stipulated two meetings.

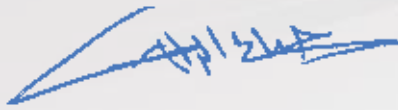
12. Corporate Social Responsibility

Taageer is committed to shoulder its financial responsibility in social sphere. During the financial year 2016, Taageer has contributed sums aggregating to RO 4,500 against an amount of RO. 30,000 approved at AGM on 28 March 2016 to associations engaged in promoting welfare of the Disabled, Elderly Friends, Blind, Diabetic and in spreading cancer awareness.

13. Acknowledgement

The Board of Directors acknowledges confirmation of:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules;
- Review of the efficiency and adequacy of internal control systems of the Company and that it complies with internal rules and regulations;
- There are no material matters that affect the continuation of the Company and its ability to continue its operations during the next financial year.



Saleh Nasser Al Riyami

Chairman, Audit & Risk Committee



Independent auditor's report to the shareholders of Taageer 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 Taageer Finance Company SAOG (the Company) as at 31 December 2016, 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 financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

Key Audit Matter	<ul style="list-style-type: none"> • Impairment of net investment in finance leases, working capital finance and factoring receivables
------------------	---

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, Hatat House A, Suites 204-211, Wadi Adai, P. O. Box 3075, Ruwi, PC 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/om

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

Key audit matter

Key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was 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 this matter.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of net investment in finance leases, working capital finance and factoring receivables</p> <p>Impairment provisions represent management's best estimate of the losses incurred within the finance leases, working capital finance and factoring receivables portfolios at the statement of financial position date. They are calculated on a collective basis for portfolios of finance leases, working capital finance and factoring receivables of a similar nature and on an individual basis for significant finance leases, working capital finance and factoring receivables. The calculation of both collective and individual impairment allowances is inherently judgemental for any finance company.</p> <p>For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that finance leases, working capital finance and factoring receivables.</p> <p>Collective impairment provisions are calculated using historical default rates of the Company and takes into consideration the impact of current economic and credit conditions. The inputs to these models are subject to management judgement and model overlays are often required.</p> <p>The audit was focused on impairment due to the materiality of the balance and the subjective nature of the calculation.</p>	<p>The policies and methodologies used by the Company were discussed by us with the management and the audit committee.</p> <p>The following procedures were performed to support our discussions and conclusions:</p> <ul style="list-style-type: none"> • The key controls management has established to support their specific impairment calculations that we considered to be relevant for our audit were tested. This primarily included controls over credit review processes and criteria defined to identify impaired portfolios and review controls over the approval of significant individual impairments. • For specific provisions, the appropriateness of provisioning methodologies and policies (including re-performance of the calculations for discounted cash flow model on sample basis) was independently assessed for a sample of finance leases, working capital finance and factoring receivables across the portfolio selected on the basis of materiality and risk. <p>For collective provisions, the appropriateness of the methodology used was assessed and the calculations (including segmentation of portfolio, historical loss ratio and estimated recoveries) were tested on a sample basis through re-performance.</p>



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

Other information

The directors are responsible for the other information. The other information, which we obtained prior to the date of our auditor's report comprises of the Board of Directors' report, the Corporate Governance Report and Management Discussion and Analysis, but does not include the financial statements and our auditor's report thereon. The complete annual report which is not yet received 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 complete annual report, which is not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance 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 ("the CMA") of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended, and for such internal control as management determines 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 directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 these 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 Taageer 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 directors.
- Conclude on the appropriateness of management's 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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, we report that the financial statements have been prepared and comply, in all material respects, with the relevant requirements of the CMA of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended.

Kenneth Macfarlane

Kenneth Macfarlane

Muscat, Sultanate of Oman
 12 March 2017





Employee Training Program

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016 RO 000	2015 RO 000
ASSETS			
Cash and bank balances	4	1,422	868
Net investment in finance leases, working capital finance and factoring receivables	5	152,264	126,686
Other receivables and prepayments	6	786	667
Deferred tax	18(f)	312	289
Available for sale financial asset	7	582	582
Vehicles and equipment	8	348	326
Statutory deposit	9	250	210
Total assets		155,964	129,628
LIABILITIES AND EQUITY			
LIABILITIES			
Bank overdrafts and short term loans	10	41,369	42,049
Tax payable	18(b)	1,063	1,130
Creditors, accruals and other liabilities	13	6,691	4,933
Corporate and security deposits	12	7,052	4,367
Long term loans	11	63,387	42,837
Total liabilities		119,562	95,316
EQUITY			
Capital and reserves			
Share capital	14(a)	25,359	25,359
Legal reserve	14(b)	3,597	3,150
Fair value reserve	7	63	63
Retained earnings		7,383	5,740
Total equity		36,402	34,312
Total equity and liabilities		155,964	129,628
Net assets per share (baizas)	15	144	135

These financial statements including notes and other explanatory information on pages 9 to 37 were approved and signed by the Directors on 25 January 2017.



Chairman



Director

The notes and other explanatory information on pages 6 to 37 form an integral part of these financial statements.

Report of the auditors is set forth on pages 1-4.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RO 000	2015 RO 000
Income			
Finance income	24	12,579	11,035
Interest expense	10-12&24	(4,093)	(2,212)
Net income from financing activities		8,486	8,823
Other operating income	17	1,344	858
		9,830	9,681
Expenses			
General and administrative expenses	16	(3,801)	(3,629)
Depreciation	8	(154)	(151)
		(3,955)	(3,780)
Profit before provision for impairment		5,875	5,901
Impairment in net investment in finance leases, working capital finance and factoring receivables - net	5(c)	(707)	(818)
Provision for impairment against other receivables	6	(175)	-
Profit before taxation		4,993	5,083
Taxation	18(a)	(519)	(662)
Profit and total comprehensive income for the year		4,474	4,421
Basic and diluted earnings per share (baizas)	19	17.64	17.43

The notes and other explanatory information on pages 9 to 37 form an integral part of these financial statements.

Report of the auditors is set forth on pages 1-4.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital RO 000	Legal reserve RO 000	Fair value reserve RO 000	Retained earnings RO 000	Total RO 000
At 1 January 2016	25,359	3,150	63	5,740	34,312
Total comprehensive income for the year					
Profit for the year	-	-	-	4,474	4,474
Total comprehensive income for the year	-	-	-	4,474	4,474
Transactions with owners:					
Transfer to legal reserve [note 14(b)]	-	447	-	(447)	-
Cash dividends [note 14(c)]	-	-	-	(2,384)	(2,384)
Total transactions with owners	-	447	-	(2,831)	(2,384)
At 31 December 2016	25,359	3,597	63	7,383	36,402
At 1 January 2015	25,359	2,708	63	4,297	32,427
Total comprehensive income for the year					
Profit for the year	-	-	-	4,421	4,421
Total comprehensive income for the year	-	-	-	4,421	4,421
Transactions with owners:					
Transfer to legal reserve [note 14(b)]	-	442	-	(442)	-
Cash dividends	-	-	-	(2,536)	(2,536)
Total transactions with owners	-	442	-	(2,978)	(2,536)
At 31 December 2015	25,359	3,150	63	5,740	34,312

The notes and other explanatory information on pages 9 to 37 form an integral part of these financial statements.

Report of the auditors is set forth on pages 1-4.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RO 000	2015 RO 000
Operating activities			
Profit before taxation		4,993	5,083
Adjustments for:			
Interest expense		4,093	2,212
Impairment for net investment in finance leases, working capital finance and factoring receivables - net	5(c)	707	818
Depreciation	8	154	151
Net investment in finance leases, working capital finance and factoring receivables written off / (written back)	5(c)	900	(19)
Provision for impairment against other receivables	6	175	-
Provision for end of service benefits	13.1	27	26
Operating cash flows before changes in working capital, payment of end of service benefits, income tax and interest		11,049	8,271
Changes in working capital			
Net investment in finance leases, working capital finance and factoring receivables		(27,185)	(20,179)
Other receivables and prepayments		(294)	(475)
Creditors, accruals and other liabilities		1,763	(531)
Net cash used in operations		(14,667)	(12,914)
End of service benefits paid	13.1	(16)	(11)
Income tax paid	18(d)	(609)	(531)
Interest paid		(4,109)	(2,417)
Net cash used in operating activities		(19,401)	(15,873)
Investing activities			
Purchase of vehicles and equipment	8	(176)	(92)
Statutory deposit placed	9	(40)	(40)
Net cash used in investing activities		(216)	(132)
Financing activities			
Long term loans received-net		20,550	24,034
Short term loans (repaid) / received- net		(500)	5,000
Corporate and security deposits received /(repaid) - net		2,685	(11,792)
Dividends paid	14	(2,384)	(2,536)
Net cash generated from financing activities		20,351	14,706
Net change in cash and cash equivalents		734	(1,299)
Cash and cash equivalents at the beginning of the year		(1,681)	(382)
Cash and cash equivalents at the end of the year		(947)	(1,681)
Cash and cash equivalents comprise of:			
Cash and bank balances	4	1,422	868
Bank overdrafts	10	(2,369)	(2,549)
		(947)	(1,681)

The notes and other explanatory information on pages 9 to 37 form an integral part of these financial statements.

Report of the auditors is set forth on pages 1-4.



Corporate Social Responsibility

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1 Legal status and principal activities

Taageer Finance Company SAOG (the Company) is an Omani joint stock company registered with the Ministry of Commerce on 22 October 2005. The Company was incorporated as a closed stock Company on 24 December 2000 and was converted as an Omani joint stock Company on 21 October 2005 by a resolution of the shareholders passed on 27 August 2005. The Company is engaged in the business of providing leasing, debt factoring, bridge loan and construction loans in the Sultanate of Oman. The Company's shares are listed on Muscat Securities Market. The registered office of the Company is located at Al-Khuwair, Muscat, Sultanate of Oman.

The Company operates in the Sultanate of Oman with a network of five branches (2015 - six branches) and has employed 150 employees as of 31 December 2016 (2015 - 155 employees).

2 Summary of significant accounting policies

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

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial reporting Standards (IFRS), applicable regulations of Central Bank of Oman, applicable requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority of the Sultanate of Oman.

2.2 Basis of preparation

The financial statements have been prepared under the historical cost convention except for available for sale financial asset which is carried 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.

The preparation of 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. Management has used its judgments and made estimates in determining the amounts recognised in the financial statements. 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 2.23. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

to accounting estimates are recognised in the period in which the estimate is revised and in any future periods effected.

(a) *Standards, amendments and interpretations effective in 2015 and relevant for the Company's operations:*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2016 that have a material impact on the financial statements of the Company.

(b) *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 not mandatory for the Company's accounting periods beginning on 1 January 2016 and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 9, 'Financial instruments' (effective from 1 January 2018)

In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. Following the changes approved by the IASB in July 2014, the Company's management is in the process of assessing the impact of application of changes in IFRS 9 'Financial instrument' on the financial statements of the Company.

- IFRS 15, 'Revenue from contracts with customer' (effective from 1 January 2018)

The IASB has issued a new standard for the recognition of revenue. This will replace IAS18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. As the Company's revenue recognition is governed under IAS 17 "Leases", therefore, the Company does not expect any significant impact from the application of IFRS 15.

- IFRS 16, 'Leases' (effective from 1 January 2019)

This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company's management has not yet estimated the impact of application of IFRS16 as it believes that being a lessor, it would not have any significant implications for the Company.

Other standards and interpretations that have been issued but are not yet mandatory, and have not been early adopted by the Company, are not expected to have a material impact on the Company's financial statements.

2.3 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discreet financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Company is engaged in leasing activities, all of which are carried out in the Sultanate of Oman. Although the Company has retail and corporate customers, the entire lease portfolio is managed internally as one business unit. All the Company's funding and costs are common and are not allocated between these two portfolios. The financial information that can be separately recognised for retail and corporate portfolios has been disclosed in note 24 to these financial statements.

2.4 Foreign currency transactions

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 presented in Rial Omani, rounded to the nearest thousands which is the Company's functional and presentation currency.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

2.5 Revenue recognition

Assets owned by the Company and subject to finance leases are included in the financial statements 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, and 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. Initial direct costs include amounts that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by sales and marketing teams. Income from finance leases represents gross earnings on finance leases allocated to the period of the lease using the net investment method, which reflects a constant periodic rate of return. The gross return is adjusted by way of transaction costs incurred that are directly attributable to the origination of lease contract such as dealer commission etc. Lease processing fee charges are recognised within interest income as part of effective interest rate.

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

Interest on factoring and working capital finance receivables is recognised over the tenure of agreement. Factoring contracts are generally for a term ranging between 90 days to 180 days.

Interest on past due and impaired leases, working capital finance and factoring receivables is not recognised to income and is transferred to reserve account. This is reversed from reserve account and is taken to statement of comprehensive income when actually received in cash.

Penal charges, insurance fee and other operating fees are recognised when the related services are performed.

Dividend income is accounted for when the right to receive dividend is established.

2.6 Interest expense

Interest expense is recognised on accrual basis using effective interest rate method.

2.7 Taxation

The tax expense for the year comprises current and deferred tax and is recognised in the statement of comprehensive income except relating to other comprehensive income

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

which is recognised in equity. The current income tax charge is calculated in accordance with Omani tax laws. 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 adjustments to tax payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is determined using tax rates (and laws) that have been or are substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2.8 Vehicles and equipment

Vehicles 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 items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost to their residual values over their estimated useful lives as follows:

Motor vehicles	3 years
Office and computer equipment	4 years
Furniture and fixtures	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of vehicles and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

2.9 Financial assets and liabilities

2.9.1 Non-derivative financial assets

(i) Recognition and measurement of financial assets

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

The Company classifies non-derivative financial assets into the following categories: loans and receivables and availableforsale financial assets.

(a) Loans and receivables

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

(b) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available for sale financial assets are initially recognised at fair value including transaction costs. Such financial assets are subsequently carried at fair value, unless fair value cannot be reliably determined in which case these financial assets are measured at cost less accumulated impairment losses if any. Changes in the fair value of availableforsale financial assets are recognised in equity as "fair value reserve".

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, and for unlisted securities, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

On derecognition or impairment, the cumulative gain or loss previously recognised in "fair value reserve" within equity, is recognised in the statement of comprehensive income for the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

(ii) Derecognition of financial assets

A financial asset (in whole or in part) is derecognised where:

- the right to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and
- either (i) the Company has transferred substantially all the risks and rewards of ownership, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control over the asset or a proportion of the asset.

2.9.2 Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method. Other financial liabilities comprise long term loans, bank overdrafts and short term loans, corporate and security deposits and creditors accrued and other liabilities.

2.9.3 Impairment of financial assets

(a) *Assets carried at amortised cost*

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

- significant financial difficulty of the obligor;
- a breach of contract, such as a default in rental payment;

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

- the Company granting to the customer, for economic or legal reasons relating to the customer's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the customer will enter bankruptcy or other financial reorganisation; and
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual assets in the group, including adverse changes in the payment status of the debtor, or national or local economic conditions that correlate with defaults on the assets in the Company.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the financial assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

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

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

(b) Renegotiated finance lease, working capital finance and factoring receivables

The Company may restructure / reschedule loans at the request of customers. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due subject to regulatory guidance. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2.10 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and current account with banks including deposits with a maturity of three months or less from the date of placement. 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

2.13 Borrowings

Borrowings, which include corporate and security deposits, are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

2.14 End of service benefits and leave entitlements

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

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

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

2.15 Creditors, accruals and other liabilities

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

2.16 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

2.17 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.18 Directors' remuneration and sitting fees

The Directors' remuneration is governed as set out in the Commercial Companies Law, regulations issued by the Capital Market Authority and the Articles of Association of the Company.

The Annual General Meeting determines and approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided such fees, in accordance with Article 106 of the Commercial Companies Law of 1974 as amended, shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees does not exceed RO 200,000. The sitting fee for each Director does not exceed RO 10,000 in one year.

2.19 Offsetting

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

2.20 Provisions

Provisions are recognised 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 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at contracted rates. Lease commitments are stated at contracted values at year end.

2.22 Fair value estimates

The fair value of financial assets and liabilities that are not traded in an active market is determined by using estimated discounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

The nominal value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of borrowing for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

2.23 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed by the Company to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are readily apparent from other sources. Actual results may differ from these estimates.

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial period are discussed below:

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out below.

(a) *Fair value estimation*

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the statement of financial position date, adjusted for transaction costs necessary to realise the asset.

For unquoted investments a reasonable estimate of the fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows determined on the basis of historical dividends. The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

(b) *Impairment losses on net investment in finance leases, working capital finance and factoring receivables*

The Company reviews its net investment in finance leases, working capital finance and factoring receivables to assess impairment periodically. In order to assess the

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

impairment, the Company follows guidelines issued by Central Bank of Oman and the requirements of applicable IFRSs. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of debtors before the decrease can be identified with an individual debtor in that portfolio. This takes into consideration factors such as any deterioration in industry, collateral value and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(c) *Deferred taxation*

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Company. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3 Financial risk management

3.1 Financial risk factors

The Company's activities expose it to variety of financial risks: market risk (including price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

The Company has risk management function to oversee the risk management programme. In addition oversight is provided by the Asset Liability Management Committee which includes representation from credit, treasury and risk management function. The Company has independent policies and procedures which address credit risk, liquidity risk and market risk, which arise from the Company's business.

(a) *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and financing rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) **Price risk**

Price risk is a risk that fair value of financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk). As at 31 December 2016, a 5% change in the fair value of available for sale financial asset will result in RO 29,100 (2015 - RO 29,100) change in the Company's fair value reserve and net equity of the Company.

(ii) **Foreign currency risk**

Foreign currency risk is the risk arising from future commercial transactions or recognised financial assets or liabilities being denominated in a currency that is not the Company's functional currency. The majority of the Company's transactions are denominated in the functional currency. Accordingly, foreign exchange risk is considered to be minimal.

(iii) **Interest rate risk**

Interest rate risk is the uncertainty of future earnings resulting from fluctuations in interest rates. The risk arises when there is a mismatch in the assets and liabilities, which are subject to interest rate adjustment within a specified period. The most important sources of interest rate risk are the Company's borrowings where fluctuations in interest rates, if any, are reflected in the results of operations.

Interest rate gap is a common measure of rate risk. A positive gap occurs when more assets than liabilities are subject to rate change during a prescribed period of time. A negative gap occurs when liabilities exceed assets subject to rate changes during a prescribed period of time. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

The Company's leasing activities carry fixed rate of interest, hence, these activities do not expose the Company to interest rate risk. Borrowings at variable rates of interest expose the Company to cash flow interest rate risk. The interest rates on short-term borrowings with banks are subject to change upon re-negotiation of the facilities, which takes place on an annual basis in the case of overdrafts and at more frequent intervals in the case of short-term loans. The Company does not hedge against its cash flow and fair value interest rate risk.

The Company uses sensitivity analysis to analyse variable cost of borrowings. Management estimates that the Company's variable interest costs are sensitive to the extent that a change in 50 basis points in the average funding cost would change interest cost on borrowings by RO 0.559 million(2015- RO 0.446 million). The Company's exposure to interest rate risk is shown under note 25(a) to these financial statements.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is crucial for the Company's business; therefore, management carefully manages its exposure to credit risk.

(i) Credit risk measurement

The Company's credit policy aims to ensure that the target portfolio credit loss will be less than 1% of the portfolio increase for the current year. The Board of Directors periodically reviews this loss norm along with the management.

In case of the portfolio of exposure to small and medium size enterprises (SMEs), the credit risk for individual counterparties are assessed at inception of the lease through a grading methodology based on repayment history along with financial evaluation of borrowers as per risk grading model as approved by the board of directors of the Company.

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

(ii) Credit risk control and mitigation policies

The Company has established credit policies and procedures to manage credit exposure including evaluation of lease, credit worthiness, credit approvals, assigning credit limits, obtaining securities such as lien on title on leased assets, security deposits, personal guarantees and mortgages over properties.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

Exposure to credit risk is managed through regular analysis of the ability of lessees to meet repayment obligations.

Working capital finance and factoring receivables includes amounts advanced to clients in respect of debts factored interest on the amounts advanced and related charges. In the event of default in settlement of debts factored by customers of the client, the Company has recourse to the client.

The Company has clear policies in place to identify early warning signals and to initiate appropriate and timely remedial actions. Some of the early warning indicators are listed below:

- frequent dishonour of cheques;
- inability to reach the customer over phone or in person;
- lack of response to written communications;
- utilised limits in excess of authorised limits as disclosed by BCSB data;
- inability to obtain current financials; and
- adverse market feedback.

Maximum exposure to credit risk before collateral held or other credit enhancements:

	2016	2015
	RO 000	RO 000
Exposure		
Bank balances	1,408	827
Statutory deposit	250	210
Net investment in finance leases, working capital finance and factoring receivables	152,264	126,686
Available for sale financial asset	582	582
Other receivables	92	16
Total exposure	154,596	128,321

The above table represents a worst case scenario of credit risk exposure of the Company at 31 December 2016 and 2015 without taking into account any collateral held. The Company holds enforceable collaterals against net investments in finance lease to mitigate credit risk exposure.

Management is confident in its ability to continue to control and sustain acceptable exposure of credit risk to the Company resulting from its net investment in finance leases, working capital finance and factoring receivables, statutory deposits and advances. For bank balances and security deposits, the Company deals with banks having a minimum short term grading of P-3.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

(iii) Concentration of credit risk

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

Concentrations of credit risk (whether on or off statement of financial position) that arise from financial instruments exist for groups of counter-parties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk is given below:

Customer concentration

	2016	2015
	RO 000	RO 000
Gross investment in finance leases:		
Individual	95,450	61,535
Corporate	82,045	86,546
	<u>177,495</u>	<u>148,081</u>
Working capital finance and factoring receivables:		
Corporate	<u>8,684</u>	<u>5,788</u>

Economic sector concentration of gross investment in finance leases, working capital finance and factoring receivables

	2016	2015
	RO 000	RO 000
Gross investment in finance leases:		
Manufacturing	6,000	5,623
Trading and construction	9,141	9,920
Services	66,904	71,003
Individual	95,450	61,535
	<u>177,495</u>	<u>148,081</u>
Working capital finance and factoring receivables:		
Trading and construction	3,561	1,416
Services	5,123	4,372
	<u>8,684</u>	<u>5,788</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

The table below shows the short-term rating of the bank with which the Company places funds as published by Moody's Investors Services:

	Rating	2016 RO 000	2015 RO 000
Bank balances	P-1	35	81
Bank balances	P-2	46	715
Bank balances	P-3	1,326	-
Bank balances	Unrated	1	31
		1,408	827

Geographical concentration

The Company only carries out business within the Sultanate of Oman and geographical exposure is within the country.

(c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be arise by market disruptions or credit downgrades, which may result in unavailability of certain sources of funding.

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, seeking fixed interest rates for longer tenure, etc.

Fund management has been carried out by treasury function. It includes managing and monitoring day to day cash flows and funding needs. This is achieved through maintaining approved credit facilities to cover net future funding needs and monitoring cash flows projections. The maturity profile of the Company's financial liabilities is set out under note 25(b) to these financial statements.

3.2 Fair values estimation

The carrying amounts, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of long-term bank borrowings is considered to approximate their carrying amounts as these carry interest rates in line with current market rates or interest rates linked to LIBOR. The fair value of fixed deposits is not considered to be materially different from their carrying amount in view of the duration of these deposits which does not exceed 2 years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

Except for available for sale financial asset, the Company's financial instruments are not carried in the statement of financial position at fair value. The Company's all financial assets (other than available for sale financial assets) and financial liabilities are carried in the statement of financial position at amortised cost.

3.3 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 and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain the capital structure and to conform to regulations, the Company may take appropriate strategic decisions.

Central Bank of Oman (CBO) requires all finance and leasing companies to maintain a minimum paid up capital of RO 25 million by 2016. As at reporting date, the Company is in compliance with the requirement.

Gearing ratio

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

The gearing ratio including proposed cash dividend at the year-end was as follows:

	2016	2015
	RO 000	RO 000
Total liabilities (RO000)	119,562	95,316
Net equity (RO000)	36,402	34,312
Net debt to net equity ratio (times)	3.28	2.78

4 Cash and bank balances

	2016	2015
	RO 000	RO 000
Current accounts	1,408	827
Cash in hand	14	41
	1,422	868

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

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

	2016 RO 000	2015 RO 000
Gross investment in finance lease	177,495	148,081
Working capital finance and factoring receivables	8,684	5,788
Unearned lease income (refer 'b')	<u>(25,788)</u>	<u>(18,834)</u>
	160,391	135,035
Provision for impairment of net investment in finance leases, working capital finance and factoring receivables – net (refer 'c')	<u>(7,385)</u>	<u>(7,578)</u>
Unrecognised contractual income (refer 'd')	<u>(742)</u>	<u>(771)</u>
	<u>152,264</u>	<u>126,686</u>

- (a) The table below represents analysis of gross lease receivables and present value of lease receivables for each of the following periods:

	Up to 1 year RO 000	>1 year to 3 years RO 000	>3 years RO 000	Total RO 000
At 31 December 2016				
Gross investment in lease, working capital finance and factoring receivables	<u>68,395</u>	<u>78,109</u>	<u>39,675</u>	<u>186,179</u>
Present value of gross investment in finance lease, working capital finance and factoring receivables	<u>58,922</u>	<u>67,290</u>	<u>34,179</u>	<u>160,391</u>
At 31 December 2015				
Gross investment in lease, working capital finance and factoring receivables	<u>60,177</u>	<u>66,588</u>	<u>27,104</u>	<u>153,869</u>
Present value of gross investment in finance lease, working capital finance and factoring receivables	<u>52,948</u>	<u>58,589</u>	<u>23,498</u>	<u>135,035</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

- (b) The movement of unearned lease income during the year was as follows:

	2016	2015
	RO 000	RO 000
At 1 January	18,834	14,976
Additions during the year	19,415	14,705
Recognised during the year	(12,461)	(10,847)
At 31 December	<u>25,788</u>	<u>18,834</u>

- (c) The movement in the provision for impairment of net investment in finance lease, working capital finance and factoring receivables during the year was as follows:

	2016	2015
	RO 000	RO 000
At 1 January	7,578	6,741
Charged during the year - net	707	818
(Written off) / written backs during the year	(900)	19
At 31 December	<u>7,385</u>	<u>7,578</u>

- (d) The movement in the unrecognised contractual income on net investment in finance lease, working capital finance and factoring receivables during the year was as follows:

	2016	2015
	RO 000	RO 000
At 1 January	771	631
Charged during the year	258	278
Released during the year	(101)	(138)
Written off during the year	(186)	-
At 31 December	<u>742</u>	<u>771</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

Proposals for waivers / write-offs are not formula driven and are decided on a case by case basis after weighing all pros and cons. The rationale is invariably documented. In all cases, the Company aims to recover the maximum value through enforcement of collaterals / guarantees of guarantors, etc. During the year, the Company has technical written off RO 1.147 million (2015 - Nil) of its loss classified portfolio.

At 31 December 2016, impaired lease contract receivables and working capital receivables on which interest has been reserved or on which interest is not being accrued amount to approximately RO 8.599 million (2015 - RO 8.154 million). Interest is reserved by the Company against net investment in finance leases, working capital finances and factoring receivables, which are impaired, to comply with the rules, regulations and guidelines issued by the CBO.

The Company has made appropriate provision against impaired assets, which are secured against leased assets. At 31 December 2016, impairment losses would have increased by RO 2.380 million (2015 - RO 4.291 million) had benefit of collateral not been obtained by the Company for the impaired leases. Out of the total provision of RO 7.385 million (2015- RO 7.578 million) for impairment, RO 4.812 million (2015- RO 5.267 million) is against specific impaired finance leases and RO 2.573 million (2015- RO 2.311 million) is portfolio provision and RO 0.742 million (2015- RO 0.771 million) is unrecognised contractual income.

The Company also takes into account the regulations issued by the Central Bank of Oman for assessing the provisioning requirements. Rentals overdue by 1 day but less than 90 days are considered past due and not impaired, unless other objective information is available to classify the receivable as impaired.

- (e) An analysis of impaired and non-impaired portfolio of net investment in finance leases, working capital finance and factoring receivables is summarised below:

	2016	2015
	RO 000	RO 000
Neither past due nor impaired	133,079	115,467
Past due but not impaired	18,713	11,414
Impaired	8,599	8,154
Gross investment in finance leases, working capital finance and factoring receivables	160,391	135,035
Provision for impairment of net investment in finance leases, working capital finance and factoring receivables	(7,385)	(7,578)
Unrecognised contractual income	(742)	(771)
Net investment in finance leases, working capital finance and factoring receivables	<u>152,264</u>	<u>126,686</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

(f) Past due but not impaired

	2016	2015
	RO 000	RO 000
Past due up to 30 days	10,259	6,077
Past due 31 - 60 days	5,962	3,592
Past due 61 - 90days	2,492	1,745
	<u>18,713</u>	<u>11,414</u>

(g) Impaired

	2016	2015
	RO 000	RO 000
Specially mentioned (past due 91 - 180 days)	2,640	1,541
Substandard (past due 181 - 270 days)	610	699
Doubtful (past due 271 - 365 days)	527	618
Loss (more than 365 days)	4,822	5,296
	<u>8,599</u>	<u>8,154</u>

(h) Net investment in finance leases, working capital finance and factoring receivables rescheduled / restructured

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria, which, in the judgment of local management, indicate that payment will most likely continue. These policies are continuously reviewed. Restructured / rescheduled loans amounted to RO 295,824 at 31 December 2016 (2015 - RO 378,509). Out of these two contracts (2015 -four contract) amounting to RO 87,526 are classified as Special Mention as on 31December 2016(2015-RO 367,268). During the year, the Company has made an appropriate additional provision for impairment on its rescheduled/restructured lease contracts in accordance with circular dated 27 December issued by the Central Bank of Oman.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

6 Other receivables and prepayments

	2016 RO 000	2015 RO 000
Prepaid expenses	217	253
Unamortised dealer commission	477	398
Other receivables	267	16
	<u>961</u>	<u>667</u>
Provision for impairment against other receivables (refer 'a')	(175)	-
	<u>786</u>	<u>667</u>

- (a) Provision for impairment against other receivables includes provision held against legal fee and other charges recoverable from various individual and corporate parties under litigations.

7 Available for sale financial asset

	2016 RO 000	2015 RO 000
The Arab Leasing Company Limited	582	582

The movements in investment in securities classified as availableforsale investment during the year is as follows:

	2016 RO 000	2015 RO 000
At 1 January and at 31 December	582	582

This represents unquoted investment classified as availableforsale. As at 31 December 2016, the management considers carrying amount of the investment approximate to its fair value. The fair value of the investment is determined based on the unaudited financial statements of the investee company as of 30 November 2016 using valuation techniques (level 3). As at 31 December 2016 and 2015, cost of investments was RO 519,000 whereas accumulated fair value reserve was RO 63,000.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

8 Vehicles and equipment

	Motor vehicles RO 000	Office and computer equipment RO 000	Furniture and fixtures RO 000	Total RO 000
Cost				
At 1 January 2016	71	817	467	1,355
Additions during the year	-	175	1	176
At 31 December 2016	71	992	468	1,531
Accumulated depreciation				
At 1 January 2016	70	625	334	1,029
Charge for the year	1	94	59	154
At 31 December 2016	71	719	393	1,183
Net book value				
At 31 December 2016	-	273	75	348

	Motor vehicles RO 000	Office equipment RO 000	Furniture and fixtures RO 000	Total RO 000
Cost				
At 1 January 2015	71	727	465	1,263
Additions during the year	-	90	2	92
At 31 December 2015	71	817	467	1,355
Accumulated depreciation				
At 1 January 2015	61	543	274	878
Charge for the year	9	82	60	151
At 31 December 2015	70	625	334	1,029
Net book value				
At 31 December 2015	1	192	133	326

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

9 Statutory deposit

The Company is required to maintain a deposit of RO 250,000(2015- RO 210,000) with the Central Bank of Oman in accordance with the applicable licensing regulations. During the year, the deposit earned interest at the rate of 1% (2015- 1%) per annum. In accordance with circular number FM 29 issued by the Central Bank of Oman on 15 June 2011, the Company has to increase statutory deposit by RO 40,000 every year to RO 250,000 before the end of year 2016. The Company is in compliance with the requirement.

10 Bank overdrafts and short term loans

The Company availed short term borrowing facilities from various commercial banks. The contractual limits of these borrowings are approximately RO 64.40 million(2015- RO 62.32million), which are entirely secured against pari-passu charges over net investment infinance leases, working capital finance and factoring receivables. Interest on bank overdraft andshort term bank loans ranged between 3.00% to 6.00% (2015-2.36% to5.75%) per annum. Maturities of the bank overdrafts and short term loans are disclosed in note 25(b) to these financial statements.

The table below indicates the composition of the bank overdrafts and short term loans as at 31 December:

	2016	2015
	RO 000	RO 000
Bank overdrafts	2,369	2,549
Shortterm loans	39,000	39,500
	<u>41,369</u>	<u>42,049</u>

11 Longterm loans

The Company has entered into long term loan facility agreements with commercial banks. The aggregate contractual limits of long term loans is RO 69.085 million (2015- RO 47.105 million). These loans carry interest at rates ranging between 3.00% to 5.75% (2015- 2.7% to 4.0%) per annum and are secured by a pari-passucharge over the total assets of the Company. The maturity dates of the aforementioned facilities range from January 2017 to December 2018.

Current portion of long term loans as at 31 December 2016amounted to RO 38.56 million (2015 - RO 42.84 million).

There is no default or breach of terms and conditions of the loan agreements during the years ended 31 December 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

12 Corporate and security deposits

	2016 RO 000	2015 RO 000
Corporate deposits	7,040	4,235
Security deposits	12	132
	<u>7,052</u>	<u>4,367</u>

The Company accepts term deposits from corporate customers in accordance with the Central Bank of Oman guidelines for a minimum period of 12 months. The interest rates on corporate and security deposits ranges between 4.75% to 5.25% per annum (2015 -2.1% to 5.3% per annum).

Security deposits are obtained against the net investment in finance leases, working capital finance and factoring receivables and include a deposit of RO 2,000 (2015 - RO 2,000) which is interest free.

13 Creditors, accruals and other liabilities

	2016 RO 000	2015 RO 000
Leased assets payable	5,323	3,753
Accruals for expenses	995	768
Accrued financial charges	237	253
End of service benefits (note 13.1)	106	95
Other liabilities	30	64
	<u>6,691</u>	<u>4,933</u>

13.1 End of service benefits

This represents long term employees' benefit. The movement in employees' end of service benefits during the year is as follows:

	2016 RO 000	2015 RO 000
At 1 January	95	80
Expense recognised in the statement of comprehensive income (note 16.1)	27	26
Payments during the year	(16)	(11)
At 31 December	<u>106</u>	<u>95</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

14 Shareholders' equity

(a) Share capital

The authorised share capital comprises 300,000,000 ordinary shares of RO 0.100 each (2015 - 300,000,000 ordinary shares of RO 0.100 each). The Company's issued and fully paid-up share capital comprises of 253,590,000 ordinary shares of RO 0.100 each (2015-253,590,000 ordinary shares of RO 0.100 each). Central Bank of Oman's requirement related to minimum paid up capital is set out under note 3.3 to these financial statements.

At 31 December, the shareholders who own 10% or more of the Company's share capital were:

	2016		2015	
	Share holding %	Shares held	Share holding %	Shares held
Oman Investment Fund	33.63	85,287,298	33.63	85,287,298
The Arab Investment Company S.A.A	18.79	47,637,994	18.79	47,637,994
Iran Foreign Investment Company	12.49	31,685,320	12.49	31,685,320

(b) Legal reserve

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

(c) Proposed dividend

Dividend is not accounted for until it has been approved at the Annual General Meeting. Board of Directors recommend 9.5% (2015 - 9.40%) cash dividend amounting to RO 2.409 million for the year 2016 (2015 - cash dividend RO 2.384 million) subject to approval of shareholders' at the AGM.

The financial statements for the year ended 31 December 2016 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained earnings for the year ending 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

15 Net assets per share (baizas)

Net assets per share is calculated by dividing the net assets at the year end by the number of shares outstanding as follows:

	2016	2015
	RO 000	RO 000
Net assets (RO 000)	36,402	34,312
Number of ordinary shares outstanding at 31 December (numbers 000)	253,590	253,590
Net assets per share (baizas)	144	135

16 General and administrative expenses

	2016	2015
	RO 000	RO 000
Personnel costs (note 16.1)	2,745	2,630
Occupancy costs	247	262
Professional fees and subscriptions	164	142
Communication costs	156	174
Directors' remuneration and sitting fees (note 21)	140	142
Advertising and sales promotion	85	63
Travelling expenses	52	59
Printing and stationery expenses	45	65
IT maintenance and license fees	31	18
Annual general meeting expenses	9	7
Collection and recovery expenses	8	21
Insurance	5	6
Donations	3	20
Other office expenses	111	20
	3,801	3,629

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

16.1 Components of personnel costs

	2016 RO 000	2015 RO 000
Wages and salaries	2,355	2,150
Other benefits	204	326
Contribution to the Public Authority for Social Insurance	159	128
Charge for end of service benefits (note 13.1)	27	26
	<u>2,745</u>	<u>2,630</u>

17 Other operating income

	2016 RO 000	2015 RO 000
Insurance charges	596	373
Services charges	540	350
Foreclosure charges	120	103
Dividend and other income	36	32
Miscellaneous	52	-
	<u>1,344</u>	<u>858</u>

18 Taxation

(a) *Components of income tax expense:*

	2016 RO 000	2015 RO 000
Current tax - current year	596	606
Current tax - prior year	(54)	11
Deferred tax- current year	(23)	45
	<u>519</u>	<u>662</u>

(b) *Breakup of tax liability is as follows:*

	2016 RO 000	2015 RO 000
Current liability		
- Current year	596	617
- Prior years	467	513
	<u>1,063</u>	<u>1,130</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

(c) *Reconciliation of tax expense*

The Company has provided for taxation in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% (2015 - 12%) of taxable profits in excess of RO 30,000. 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:

	2016	2015
	RO 000	RO 000
Accounting profit before taxation	4,993	5,083
Income tax expense computed at applicable tax rates	596	606
Effect of prior period adjustment	(54)	11
Others	(23)	45
	519	662

(d) *The movement in taxation liability is as follows:*

	2016	2015
	RO 000	RO 000
At 1 January	1,130	1,044
Current tax for the year	596	606
Prior years charge adjusted	(54)	11
Paid during the year	(609)	(531)
At 31 December	1,063	1,130

(e) *Status of the tax assessments*

The tax returns of the Company for the tax years 2010 to 2015 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance. The management is of the opinion that any other additional taxes, if any, related to the open tax years would not be material to the Company's financial position as at 31 December 2016.

(f) *Deferred tax asset*

Deferred income taxes are calculated on all temporary differences using a principal tax rate of 12% (2015- 12%). Deferred tax assets and the deferred tax charge in the statement of comprehensive income are attributable to provisions. Details of recognised deferred tax asset are as follows:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

	1	Recognised in the statement of	31
	January	comprehensive	December
	2016	income	2016
	RO 000	RO 000	RO 000
Vehicles and equipment	6	(4)	2
Provision for impairment of net investment in finance leases, working capital finance and factoring receivables	283	27	310
Deferred tax asset	289	23	312

	1	Recognised in the statement of	31
	January	comprehensive	December
	2015	income	2015
	RO 000	RO 000	RO 000
Vehicles and equipment	11	(5)	6
Provision for impairment of net investment in finance leases, working capital finance and factoring receivables	323	(40)	283
Deferred tax asset	334	(45)	289

19 Basic and diluted earnings per share (baizas)

Basic earnings per share is calculated by dividing the net income attributable to shareholders of the year by the weighted average number of shares during the year.

	2016	2015
	RO 000	RO 000
Profit for the year (RO 000)	4,474	4,421
Weighted average number of shares during the year (Numbers 000)	253,590	253,590
Basic earnings per share (baizas)	17.64	17.43

No figure for diluted earnings per share has been presented because the Company has not issued any instruments, which would have an impact on earnings per share when exercised.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

20 Related party transactions

Related parties comprise the shareholders, directors, key business personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions. Pricing policies and terms of these transactions are approved by the Company's management.

The Company maintains significant balances with these related parties which arise in the normal course of business and are entered into at terms and condition which the management considers to be comparable with those adopted for arm's length transactions with third parties.

The Company has entered into transactions in the ordinary course of business with other related parties in which certain directors have a significant influence and with senior management. The terms and conditions of these transactions are mutually agreed. During the year, the following transactions were carried out with related parties:

	2016	2015
	RO 000	RO 000
Transactions with related parties:		
Interest on corporate and security deposits	92	53
Occupancy costs	140	140
Finance income	1	1
Medical & Credit Life Insurance premium	239	56
Dividend Income	34	31
Related party balances:		
Net investment in finance leases	14	16
Corporate and security deposits	4,000	-
Available for sale financial asset	582	582
Medical & Credit Life Insurance	176	-

21 Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise). The remuneration of directors and other members of key management during the year was as follows:

	2016	2015
	RO 000	RO 000
Salaries and other benefits to key management personnel	430	373
Directors' remuneration (note 16)	60	56
Directors' sitting fees (note 16)	80	86

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

22 Contingent liabilities

The Company has given counter guarantee to a commercial bank to the extent of RO 235,384 (2015- RO 373,650) in respect of performance bonds, advance payment guarantees, letter of credits, etc. issued by the banks on behalf of the Company's customers.

23 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 2016 is considered by the management not to be materially different to 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:

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. For finances that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. 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.

Corporate and security deposits

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

Available for sale financial asset

Fair value is calculated based on discounted expected future cash flows which are based on dividends received historically by the Company. The cash flows have been discounted using market rate of interest.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

Off-statement of financial position financial instruments

No fair value adjustment is made with respect to credit-related off statement of financial position financial instruments, which include counter guarantees and standby letters of credit, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Fair value versus carrying amounts

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

Fair value measurements recognised in the statement of financial position:

The following table provides an analysis of 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).

	2016			
	Level 1 RO 000	Level 2 RO 000	Level 3 RO 000	Total RO 000
Available-for-sale financial asset				
Un-quoted investment	-	-	582	582
	<u>-</u>	<u>-</u>	<u>582</u>	<u>582</u>
	2015			
	Level 1 RO 000	Level 2 RO 000	Level 3 RO 000	Total RO 000
Available-for-sale financial asset				
Un-quoted investment	-	-	582	582
	<u>-</u>	<u>-</u>	<u>582</u>	<u>582</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

24 Segment analysis

The financial information that can be separately recognised for retail and corporate portfolios are as follows:

	2016 RO 000			2015 RO 000		
	Retail	Corporate	Total	Retail	Corporate	Total
Revenue						
Finance income	6,099	6,480	12,579	4,611	6,424	11,035
Interest expense			(4,093)			(2,212)
Net income from financing activities			8,486			8,823
Other operating income			1,344			858
Total revenue			9,830			9,681
Expenses						
General and administrative expenses			(3,801)			(3,629)
Depreciation			(154)			(151)
Impairment for net investment in finance leases, working capital finance and factoring receivables	(446)	(261)	(707)	(540)	(278)	(818)
Provision for impairment against other receivables	(32)	(143)	(175)	-	-	-
Profit before taxation			4,993			5,083
Taxation			(519)			(662)
Profit for the year			4,474			4,421
Assets						
Net investment in finance leases, working capital finance and factoring receivables	77,079	75,185	152,264	50,492	76,194	126,686
Other assets			3,700			2,942
Total assets			155,964			129,628
Liabilities						
Total liabilities			119,562			95,316

The chief operating decision maker monitors revenue, provision for impairment and net investment in finance leases, working capital finance and factoring receivables for the above two operating segments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

25 Financial Instruments and financial risk management

(a) Interest rate risk

The table below summarises the Company's exposure to interest rate risks. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual reprising or maturity dates as on 31 December 2016 and 2015:

	0 - 30 days	31 - 180 days	181 - 365 days	1 - 3 years	Over 3 years	Non interest rate sensitive	Total
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
31 December 2016							
Financial assets							
Cash and bank balances	-	-	-	-	-	1,422	1,422
Net investment in finance leases, working capital finance and factoring receivables	6,060	25,319	24,560	63,884	32,441	-	152,264
Other receivables	-	-	-	-	-	92	92
Available for sale financial asset	-	-	-	-	-	582	582
Statutory deposit	-	-	-	-	-	250	250
Total financial assets	6,060	25,319	24,560	63,884	32,441	2,346	154,610
Financial liabilities							
Bank overdrafts and short term loans	14,369	27,000	-	-	-	-	41,369
Creditors, accruals and other liabilities	-	-	-	-	-	6,585	6,585
Corporate and security deposits	12	-	1,800	5,240	-	-	7,052
Long term loans	1,941	19,835	16,789	24,092	730	-	63,387
Total financial liabilities	16,322	46,835	18,589	29,332	730	6,585	118,393
Interest rate sensitive gap	(10,262)	(21,516)	5,971	34,552	31,711	(4,239)	36,217
Cumulative gap	(10,262)	(31,778)	(25,807)	8,745	40,456	36,217	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

	0 - 30 days RO 000	31 - 180 days RO 000	181 - 365 days RO 000	1 - 3 years RO 000	Over 3 years RO 000	Non interest rate sensitive RO 000	Total RO 000
31 December 2015							
Financial assets							
Cash and bank balances	-	-	-	-	-	868	868
Net investment in finance leases, working capital finance and factoring receivables	5,623	22,797	21,265	54,978	22,023	-	126,686
Other receivables	-	-	-	-	-	16	16
Available for sale financial asset	-	-	-	-	-	582	582
Statutory deposit	-	-	-	-	-	210	210
Total financial assets	5,623	22,797	21,265	54,978	22,023	1,676	128,362
Financial liabilities							
Bank overdrafts and short term loans	17,620	24,429	-	-	-	-	42,049
Creditors, accruals and other liabilities	-	-	-	-	-	4,838	4,838
Corporate and security deposits	32	2,265	2,070	-	-	-	4,367
Long term loans	-	14,807	16,194	11,836	-	-	42,837
Total financial liabilities	17,652	41,501	18,264	11,836	-	4,838	94,091
Interest rate sensitive gap	(12,029)	(18,704)	3,001	43,142	22,023	(3,162)	34,271
Cumulative gap	(12,029)	(30,733)	(27,732)	15,410	37,433	34,271	-

Net investment in finance leases, working capital finance and factoring receivables carry interest rates ranging between 0% to 25.50% (2015 -3.00% to 19.00%) per annum. Interest rates for all other interest bearing financial assets and financial liabilities are disclosed in the respective notes to these financial statements.

(b) Liquidity risk

The amounts disclosed in table below analyses the Company's assets and liabilities as on 31 December 2016 and 2015 into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of the discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

	0 - 30 days	31 - 180 days	181 - 365 days	1 - 3 years	Over 3 years	Non-fixed maturity	Total
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
2016							
Financial assets							
Cash and bank balances	-	-	-	-	-	1,422	1,422
Net investment in finance leases, working capital finance and factoring receivables	6,060	25,319	24,560	63,884	32,441	-	152,264
Other receivables	-	-	-	-	-	92	92
Available for sale financial asset	-	-	-	-	-	582	582
Statutory deposit	-	-	-	-	-	250	250
Non-financial assets							
Prepayments	-	-	-	-	-	694	694
Deferred tax	-	-	-	-	-	312	312
Vehicle and equipment	-	-	-	-	-	348	348
Total assets	6,060	25,319	24,560	63,884	32,441	3,700	155,964
Equity							
Share capital and reserves	-	-	-	-	-	36,402	36,402
Financial liabilities							
Bank overdrafts and short term loans	14,369	27,000	-	-	-	-	41,369
Creditors, accruals and other liabilities	-	-	-	-	-	6,585	6,585
Corporate and security deposits	12	-	1,800	5,240	-	-	7,052
Long term loans	1,941	19,835	16,789	24,092	730	-	63,387
Non-financial liabilities							
End of service benefits	-	-	-	-	106	-	106
Tax payable	1,063	-	-	-	-	-	1,063
Total equity and liabilities	17,385	46,835	18,589	29,332	836	42,987	155,964
Liquidity gap	(11,325)	(21,516)	5,971	34,552	31,605	(39,287)	-
Cumulative liquidity gap	(11,325)	(32,841)	(26,870)	7,682	39,287	-	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

	0 - 30 days RO 000	31 - 180 days RO 000	181 - 365 days RO 000	1 - 3 years RO 000	Over 3 years RO 000	Non-fixed maturity RO 000	Total RO 000
2015							
Financial assets							
Cash and bank balances	-	-	-	-	-	868	868
Net investment in finance leases, working capital finance and factoring receivables	5,623	22,797	21,265	54,978	22,023	-	126,686
Other receivables	-	-	-	-	-	16	16
Available for sale financial asset	-	-	-	-	-	582	582
Statutory deposit	-	-	-	-	-	210	210
Non-financial assets							
Prepayments	-	-	-	-	-	651	651
Deferred tax	-	-	-	-	-	289	289
Vehicle and equipment	-	-	-	-	-	326	326
Total assets	5,623	22,797	21,265	54,978	22,023	2,942	129,628
Equity							
Share capital and reserves	-	-	-	-	-	34,312	34,312
Financial liabilities							
Bank overdrafts and short term loans	17,620	24,429	-	-	-	-	42,049
Creditors, accruals and other liabilities	-	-	-	-	-	4,838	4,838
Corporate and security deposits	32	2,265	2,070	-	-	-	4,367
Long term loans	-	14,807	16,194	11,836	-	-	42,837
Non-financial liabilities							
End of service benefits	-	-	-	-	95	-	95
Tax payable	1,130	-	-	-	-	-	1,130
Total equity and liabilities	18,782	41,501	18,264	11,836	95	39,150	129,628
Liquidity gap	(13,159)	(18,704)	3,001	43,142	21,928	(36,208)	-
Cumulative liquidity gap	(13,159)	(31,863)	(28,862)	14,280	36,208	-	-

The Company has unutilised credit facilities as at reporting date to mitigate the impact of negative mismatch.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016 (continued)

26 Financial instruments by category

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

2016	Available for sale financial assets RO 000	Loans and receivables RO 000	Total RO 000
Financial assets			
Cash and bank balances	-	1,422	1,422
Net investment in finance leases, working capital finance and factoring receivables	-	152,264	152,264
Other receivables	-	92	92
Investments	582	-	582
Statutory deposit	-	250	250
	<u>582</u>	<u>154,028</u>	<u>154,610</u>
			Financial liabilities RO 000
			41,369
			6,585
			7,052
			<u>63,387</u>
			<u>118,393</u>
			Financial Liabilities RO 000
			42,049
			4,838
			4,367
			<u>42,837</u>
			<u>94,091</u>

Report of the auditors is set forth on pages 1-4.