TAAGEER FINANCE COMPANY SAOG

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

Registered address

P.O. Box 3509
Postal Code 112
MGM
Muscat, Sultanate of Oman

Principal place of business

P.O. Box 200
Postal Code 136
Al Khuwair
Muscat, Sultanate of Oman

TAAGEER FINANCE COMPANY SAOG

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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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 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other 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	• 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.

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

Our audit approach (continued)

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of net investment in finance leases, working capital finance and factoring receivables At 31 December 2019, net investment in finance leases, working capital finance and factoring receivables were RO 196.180 million against which a credit impairment provision of RO 14.011 million was maintained. The directors determine the provision for Expected Credit Loss (ECL) on its net investment in finance leases, working capital finance and factoring receivables by applying the requirements of International Financial Reporting Standard 9 'Financial Instruments' (IFRS 9). We identified provision for ECL on net investment in finance leases, working capital finance and factoring receivables as a key audit matter because it is material to the Company and management makes complex and subjective judgements over both timing of recognition of impairment and the estimation of the amount of impairment loss, such as: • choosing appropriate models and assumptions for the measurement of ECL which includes estimation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD); • determining qualitative criteria for Significant Increase in Credit Risk (SICR); • establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; • judgement to determine when a default event has occurred (for Stage 3 customers); and • determining disclosure requirements in accordance with IFRS. Information on the accounting policy, significant accounting estimates and judgements and credit risk management is included in notes 2.9, 2.25(b) and 3.1(b) to the financial statements respectively. Disclosures relating to the ECL provisions are included in note 5 to the financial statements.	We obtained an understanding, assessed and tested the design and operating effectiveness of the key controls over the credit processes such as lease and loan origination and ongoing monitoring. We performed the following substantive procedures: • Read the Company's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; • Obtained an understanding of and tested the completeness and accuracy of the historical and current dataset used for ECL calculation; • Tested a sample of receivables to determine the appropriateness and proper application of the staging criteria; • Obtained an understanding of the methodology to identify and calculate impairment allowance for Stage 3 exposures and tested a sample of credit exposures against the methodology; and • Assessed the disclosures made by the directors in the financial statements. We involved our specialists in areas that required specific expertise (e.g. ECL model) including: • Testing the IFRS 9 methodology for the ECL calculation; • Testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used; • Assessing the appropriateness of the definition of default and testing the application of default criteria; • Assessing the appropriateness of PD and LGD and evaluating the reasonableness of the EAD; • Assessing the appropriateness of the criteria used to determine the SICR and the resultant classification of exposures into various stages including movements between stages; and • Testing and assessing the reasonableness of the Company's use of scenarios, weightings and discounting.

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 comprises the Director's Report, Management Report and Corporate Governance Report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Company's Annual Report, which is expected to be made available to us after that date.

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

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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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 the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers

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C.R. No 1230865
PricewaterhouseCoopers LLC

Mario Portelli

Muscat, Sultanate of Oman
12 March 2020

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	Note	2019 RO'000	2018 RO'000
ASSETS			
Cash and cash equivalents	4	**3,882**	1,986
Net investment in finance leases	5	**168,201**	135,165
Working capital finance and factoring receivables	5	**13,968**	28,212
Other receivables and prepayments	6	**456**	432
Financial assets at fair value through other comprehensive income	7	**-**	-
Deferred tax asset - net	18(f)	**1,016**	797
Vehicles, equipment and right-of-use assets	8	**922**	343
Statutory deposit	9	**250**	250
Total assets		**188,695**	167,185
LIABILITIES AND EQUITY			
LIABILITIES			
Creditors, accruals and other liabilities	10	**2,038**	2,588
Bank overdrafts and short-term loans	11	**62,520**	59,698
Unsecured non-convertible bonds	12(a)	**6,183**	6,159
Tax payable	18(b)	**1,605**	1,291
Corporate and security deposits	13	**10,251**	7,222
Long-term loans	12	**64,335**	49,731
Total liabilities		**146,932**	126,689
EQUITY			
Share capital	14(a)	**25,359**	25,359
Legal reserve	14(b)	**4,934**	4,554
Fair value reserve		**(441)**	(441)
Retained earnings		**11,911**	11,024
Total equity		**41,763**	40,496
Total equity and liabilities		**188,695**	167,185
Customers Liabilities under Guarantees	22	**368**	569
Net assets per share (baizas)	15	**165**	160

The financial statements including notes and other explanatory information on pages 5 to 52 were approved and authorised for issue by the Board of Directors on 28 January 2020 and were signed on their behalf by:

Chairman **Director**

TAAGEER FINANCE COMPANY SAOG

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RO'000	2018 RO'000
Income			
Finance income		**18,295**	14,948
Interest expense		**(7,759)**	(5,457)
Net finance income		**10,536**	9,491
Other operating income	16	**1,563**	1,516
		12,099	11,007
Expenses			
Operating expenses	17	**(4,523)**	(4,017)
Depreciation	8	**(354)**	(198)
Impairment in net investment in finance leases, working capital finance and factoring receivables	5(c)	**(2,553)**	(1,600)
		(7,430)	(5,815)
Profit before taxation		**4,669**	5,192
Taxation	18(a)	**(866)**	(325)
Profit for the year		**3,803**	4,867
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Changes in fair value of financial assets at fair value through other comprehensive income – net of tax		**-**	(441)
Total comprehensive income for the year		**3,803**	4,426
Basic and diluted earnings per share (baizas)	19	**15.00**	19.19

The notes and other explanatory information on pages 9 to 52 form an integral part of these financial statements.

Independent auditor's report - pages 1 to 4.

TAAGEER FINANCE COMPANY SAOG

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

	Share capital RO'000	Legal reserve RO'000	Fair value reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2019	**25,359**	**4,554**	**(441)**	**11,024**	**40,496**
Total comprehensive income for the year:					
Profit for the year	**-**	**-**	**-**	**3,803**	**3,803**
Transactions with owners:					
Dividend [note 14(c)]	**-**	**-**	**-**	**(2,536)**	**(2,536)**
Other transactions within equity:					
Transfer to legal reserve [note 14(b)]	**-**	**380**	**-**	**(380)**	**-**
Total other transactions and transactions with owners	**-**	**380**	**-**	**(2,916)**	**(2,536)**
At 31 December 2019	**25,359**	**4,934**	**(441)**	**11,911**	**41,763**
At 1 January 2018	25,359	4,067	-	9,207	38,633
Transfer to impairment reserve	-	-	-	(27)	(27)
Comprehensive income for the year:					
Profit for the year	-	-	-	4,867	4,867
Other comprehensive income:					
Re-measurement of financial assets at fair value through other comprehensive income	-	-	(441)	-	(441)
Total comprehensive income for the year	-	-	(441)	4,867	4,426
Transactions with owners:					
Dividend [note 14(c)]	-	-	-	(2,536)	(2,536)
Other transactions within equity:					
Transfer to legal reserve [note 14(b)]	-	487	-	(487)	-
Total other transactions and transactions with owners	-	487	-	(3,023)	(2,536)
At 31 December 2018	25,359	4,554	(441)	11,024	40,496

The notes and other explanatory information on pages 9 to 52 form an integral part of these financial statements.

Independent auditor's report - pages 1 to 4.

TAAGEER FINANCE COMPANY SAOG

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RO'000	2018 RO'000
Operating activities			
Profit before taxation		**4,669**	5,192
Adjustments for:			
Interest expense		**7,759**	5,457
Impairment for net investment in finance leases, working capital finance and factoring receivables		**2,553**	1,600
Depreciation	8	**354**	198
Profit on sale of assets		**(1)**	(2)
Provision for end of service benefits	10.1	**67**	33
		15,401	12,478
Working capital changes:			
Net investment in finance leases, working capital finance and factoring receivables		**(21,345)**	(17,539)
Other receivables and prepayments		**(24)**	139
Creditors, accruals and other liabilities		**(1,175)**	(525)
Cash used in operations before payment of tax, interest and employees' end of service benefits		**(7,143)**	(5,447)
Income tax paid	18(d)	**(771)**	(855)
Employees' end of service benefits paid		**(14)**	-
Interest paid		**(7,739)**	(5,264)
Net cash used in operating activities		**(15,667)**	(11,566)
Investing activities			
Purchase of vehicles and equipment	8	**(376)**	(131)
Proceeds from sale of vehicles and equipment		**16**	2
Net cash used in investing activities		**(360)**	(129)
Financing activities			
Dividend paid		**(2,536)**	(2,536)
Long term loans received		**55,884**	45,700
Long term loans paid		**(41,130)**	(34863)
Short term loans received		**34,855**	33,570
Short term loans paid		**(31,750)**	(32,800)
Corporate and security deposits received		**5,800**	4,429
Corporate and security deposits paid		**(2,758)**	(7,490)
Unsecured non-convertible bonds		**24**	6,126
Net cash generated from financing activities		**18,389**	12,136
Net change in cash and cash equivalents		**2,362**	441
Cash and cash equivalents at the beginning of the year		**1,520**	1,079
Cash and cash equivalents at the end of the year		**3,882**	1,520
Cash and cash equivalents comprise of:			
Cash and bank balances	4	**3,882**	1,986
Bank overdrafts	11	**-**	(466)
		3,882	1,520

The notes and other explanatory information on pages 9 to 52 form an integral part of these financial statements.

Independent auditor's report - pages 1 to 4.

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 to 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 (2018 - five branches) and has employed 168 employees as at 31 December 2019 (2018 - 162 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 Basis of preparation

(a) Compliance with IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). These financial statements are also prepared in accordance with the applicable requirements of the Commercial Companies Law of 2019 and comply with the disclosure requirements set out in the "Rules and Guidelines on Disclosure by issuer of Securities and Insider Trading" issued by the Capital Market Authority (CMA) of the Sultanate of Oman and applicable regulations of the Central Bank of Oman.

(b) Historical cost convention

These financial statements have been prepared on a historical cost basis except for financial assets at fair value through other comprehensive income, which are measured at fair value.

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

(c) New and amended standards adopted by the Company

The Company has applied all the standards and amendments applicable for the first time for its annual reporting period commencing 1 January 2019.

The Company had to change its accounting policies as a result of adopting IFRS 16 and elected to adopt the new rules retrospectively from 1 January 2019, but has not restated comparatives for the prior year, as permitted under the specific transition provisions under IFRS 16. The other amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) New standards and interpretations not yet adopted by the Company

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Company. These standards are not expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Company's financial statements.

As indicated in note 2.1 (c) above, the Company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the prior period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019. The new accounting policies are disclosed in note 2.8.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7%.

The Company has not leased any assets on finance lease arrangement and accordingly the relevant transition provisions were not applied at 1 January 2019.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(ii) Measurement of lease liabilities

	RO'000
Operating lease commitments disclosed as at 31 December 2018	-
Operating lease commitments existed at 31 December 2018	**561**
Discounted using the lessee's incremental borrowing rate of 7% at the date of initial application -net of short-term leases less than 12 months	**510**
Lease liability recognised as at 1 January 2019	**510**
Of which are:	
Current lease liabilities	**238**
Non-current lease liabilities	**272**
	510

The movement of lease liability during the current year is given below:

	RO'000
At 1 January 2019	**510**
Adjustment of prepaid rent	**(44)**
Interest charged during the year	**26**
Lease liabilities relating to current year additions to right-of-use assets	**62**
Lease payments made during the year	**(222)**
At 31 December 2019	**332**
Of which are:	
Current lease liabilities	**105**
Non-current lease liabilities	**227**
	332

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

(iii) Measurement of right-of-use assets

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

(iv) Adjustments recognised in the statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Vehicles, equipment and right-of-use assets – increased by RO 510 thousand
- Creditors, accruals and other liabilities (lease liability) – increased by RO 510 thousand

There was no impact on retained earnings as at 1 January 2019.

2.3 Foreign currency transactions

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 profit or loss and other comprehensive income.

2.4 Revenue recognition

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets owned by the Company and subject to finance leases are included in the financial statements as 'Net investment in finance leases' at an amount equivalent to the present value of the future minimum lease payments plus initial direct costs, discounted using the interest rate implicit in the lease, 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 'finance income' based on effective interest rate.

The lease finance income is recognised in the statement of profit or loss using the effective interest rate method. The effective interest rate is the rate that 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 a reserve account. This is reversed from reserve account and is taken to the statement of profit or loss and other comprehensive income when received in cash.

Penal charges, insurance fee and other operating fees are recognised when realised.

Dividend income is recognised when the right to receive income is established.

2 Summary of significant accounting policies (continued)

2.5 Interest expense

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

2.6 Taxation

Income tax on the results for the year comprises of current tax calculated as per the fiscal regulations of the Sultanate of Oman and deferred tax.

Current tax is recognised in the statement of profit or loss and other comprehensive income as the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred income tax assets and liabilities are offset as there is a legally enforceable right to offset these in Oman. The tax effects on the temporary differences are disclosed under non-current assets as deferred tax.

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

The principal temporary differences arise from depreciation on 'vehicles, equipment and right-of-use assets' and 'provisions for impairment of net investment in finance leases, working capital finance and factoring receivables'.

2.7 Vehicles and equipment

Vehicles and equipment are stated at historical cost less accumulated depreciation less accumulated impairment, 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 are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets, net of 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 disposals are determined by comparing the proceeds with the carrying amount. These are included in profit or loss.

2.8 Leases

(a) Company as a lessee

Effective 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

2 Summary of significant accounting policies (continued)

2.8 Leases (continued)

(a) Company as a lessee (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The lease term is considered to be the non-cancellable period for which the Company has the right to use an underlying asset. The lease term is adjusted for periods covered by an option to extend; if it is reasonably certain that the option will be exercised as well as periods covered by an option to terminate the lease; if it is reasonably certain that the option will not be exercised.

(b) Company as a lessor

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to the ownership of an underlying asset. Lease payments from operating leases are recognised as income on a straight-line basis unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished. Costs incurred in earning the lease income, including depreciation are recognised as an expense. Initial direct cost incurred in obtaining lease, are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as the lease income. Modification to an operating lease is accounted for as a new lease from the effective date of the modification, considering any prepaid or accrued leased payments relating to the original lease as part of the lease payments for the new lease. The respective leased assets are included in the statement of financial position based on their nature.

2.9 Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

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

2 Summary of significant accounting policies (continued)

2.9 Financial assets and liabilities (continued)

Measurement methods (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses (ECL) and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI financial assets'), assets that are credit-impaired at initial recognition, the Company calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of ECL in estimated future cash flows.

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

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not POCI financial assets but have subsequently become credit-impaired (or "stage 3"), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the ECL allowance).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

2 Summary of significant accounting policies (continued)

2.9 Financial assets and liabilities (continued)

2.9.1 Financial assets

(i) Classification and subsequent measurement

The Company classifies its financial assets in the following measurement categories:

- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Company's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following two measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent Solely Payments of Principal and Interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured. Interest income from these financial assets is included in "finance income" using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the asset's cash flows represents SPPI, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net investment income". Interest income from these financial assets is included in "finance income" using the effective interest rate method.

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the flows, with sales of loans only being made internally to a consolidated SPV for the purposes of collateralising notes issued, with no resulting derecognition by the Company. Another example is the liquidity portfolio of assets, which is held by the Company as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking business. These securities are classified in "other" business model and measured at FVPL.

2 Summary of significant accounting policies (continued)

2.9 Financial assets and liabilities (continued)

2.9.1 Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments

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

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity instrument at fair value through other comprehensive income. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss.

(ii) Impairment

The Company assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 3.1 (b) provides more detail of how the ECL allowance is measured.

2 Summary of significant accounting policies (continued)

2.9 Financial assets and liabilities (continued)

2.9.1 Financial assets (continued)

(iii) Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

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

If the terms are substantially different, the Company derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The impact of modifications of financial assets on the ECL calculation is discussed in note 3.1(b).

(iv) Derecognition other than on a modification

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

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks if the Company:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Company under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Company retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Company retains a subordinated residual interest.

2 Summary of significant accounting policies (continued)

2.9 Financial assets and liabilities (continued)

2.9.2 Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Company recognises any expense incurred on the financial liability; and Financial guarantee contracts and loan commitments.

(ii) Derecognition

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

The exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.10 Financial guarantee contracts and loan commitments

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

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance [calculated as described in note 3.1(b)]; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Company are measured as the amount of the loss allowance. The Company has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

2 Summary of significant accounting policies (continued)

2.10 Financial guarantee contracts and loan commitments (continued)

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Company cannot separately identify the ECL on the undrawn commitment component from those on the loan component, the ECL on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECL exceeds the gross carrying amount of the loan, the ECL is recognised as a provision.

2.11 Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset, or cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset, or cash-generating unit, is reduced to the recoverable amount. An impairment loss is recognised immediately in the statement of profit or loss and other comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the income is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

If the relevant asset is carried at a revalued amount, the reversal of the impairment loss is treated as a revaluation increase.

2.12 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.13 Share capital

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

2.14 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 profit or loss and the other comprehensive income over the period of the borrowings using the effective interest rate method.

2.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2 Summary of significant accounting policies (continued)

2.16 Employees' end of service benefits and leave entitlements

Employees' end of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 as amended and in accordance with IAS 19 "Employee Benefits". Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services up to the reporting date. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision 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 Insurances Law of 1991, are recognised as an expense in the statement of profit or loss or other 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, using the actuarial techniques, in respect of employees' end of service benefits payable under the aforesaid Oman Labour Law. Under this method, an assessment is made of an employee's expected service life with the Company and the expected basic salary at the date of leaving the service.

2.17 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.

2.18 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 Executive Officer (being 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 Executive Officer (being 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.

2.19 Dividend distribution

The Board of Directors of the Company recommends to the shareholders the dividend to be paid out of the Company's profits. The Directors take into account appropriate parameters including the requirements of the Commercial Companies Law of 2019 and other relevant directives issued by CMA while recommending the dividend. Dividends are recognised as a liability when declared and approved.

2.20 Earnings and net assets per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit or loss attributable to ordinary shareholders of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year (note 19).

2 Summary of significant accounting policies (continued)

2.20 Earnings and net assets per share (continued)

(ii) Diluted earnings per share

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

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

(iii) Net assets per share

Net assets per share is calculated by dividing:

- the net assets attributable to ordinary shareholders of the Company
- by the number of ordinary shares outstanding at 31 December (note 15).

2.21 Directors' remuneration and sitting fees

Director's remuneration is computed in accordance with the requirements of the Commercial Companies Law of 2019 and the Capital Market Authority of the Sultanate of Oman and is recognised as an expense in the Company's statement of profit or loss and other comprehensive income.

The Annual General Meeting shall approve the remuneration and the sitting fees for the Board of Directors provided that such fees 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. The total director's remuneration in one year shall not exceed RO 200,000 and the sitting fees for each Director shall not exceed RO 10,000 in one year.

2.22 Provisions

The Company recognises provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events and a reasonable estimate of the obligation can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2.23 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.

2.24 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand currency units unless otherwise stated.

2.25 Significant 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.

2 Summary of significant accounting policies (continued)

2.25 Significant accounting estimates and judgements (continued)

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:

(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

In order to assess the impairment, the Company follows guidelines issued by the Central Bank of Oman and the requirements of applicable IFRSs. The measurement of the ECL allowance for financial assets and finance lease receivables is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(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.

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.

(d) Leases

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of premises, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate);
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate); and
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

2 Summary of significant accounting policies (continued)

2.25 Significant accounting estimates and judgements (continued)

(d) Leases (continued)

Most extension options in premises leases have not been included in the lease liability, because the Company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the financial year, the Company did not revise the lease term as no significant events or changes occurred.

3 Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a 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.

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 the 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 31December 2019, a 5% change in the fair value of FVOCI asset will result in Nil (2018 - NIL) 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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

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.

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 of 50 basis points in the average funding cost would change interest cost on borrowings by RO 0.716 million (2018 - RO 0.581 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 estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

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

- A financial instrument that has not had a significant increase in credit risk since initial recognition or that has low credit risk at the reporting date. For these assets, 12-month ECL is recognised.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but do not have objective evidence of impairment. For these assets, lifetime ECL is recognised.
- Stage 3 includes financial instruments that have objective evidence of impairment at the reporting date. This stage also has obligors that already are impaired (defaulted) at the reporting date.
- Financial instruments in Stage 1 signify the accounts are performing without any sign of distress in the near future and requires computation of 12 months ECL. Instruments in Stages 2 or 3 considers computation of lifetime ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking PIT PDs for its ECL computation.
- SICR criteria is being applied at each reporting date when ECL is being run to evaluate if the credit risk associated with the facility has increased significantly from the time of recognition of the facility.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(i) Credit risk measurement (continued)

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

- Significant increase in credit risk, including quantitative (e.g. for each group of assets, lifetime PD band at initial recognition and increase in lifetime PD at reporting date which is considered significant) and qualitative criteria (e.g. restructuring).
- Definition of default and credit-impaired assets.
- Measuring ECL – Use of inputs, assumptions and estimation techniques.
- Forward-looking information incorporated in the ECL models (including economic variable assumptions)
- Grouping of instruments for losses measured on a collective basis

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.

Computation of ECL

The Company has adopted key assumptions and judgements in addressing the requirements of IFRS 9 as given below:

- Significant increase in credit risk (SICR), which includes quantitative criteria such as grouping of contracts, DPD, payment return indicator, rating downgrade of customers from initial recognition which is considered significant and qualitative criteria such as restructuring and periodical reviews of the customers;
- Definition of default, staging, rebuttals, SICR, provisioning methodology etc;
- Selection of an appropriate forward-looking model, inputs, correlation and estimations; and
- Information of forward- looking criteria of macro-economic variables incorporated in PIT PD for ECL.

Significant increase in credit risk (SICR)

While determining the credit risk of the customer which has increased significantly from the initial recognition, the Company reviews portfolio for Retail and Non-Retail on different parameters. SICR is done on quantitative and qualitative criteria which includes DPD, payment return indicator, re-rating of customers from initial assessment and market information during loan reviews. The customers' past history and records are reviewed by periodical risk evaluation under SICR triggers.

The Company reviews the existing corporate account rating given at initial recognition and assigns the new rating at review dates based on quantitative and qualitative information while assessing significant change or increase in credit risk.

The Company reviews and restructures facilities based on review of customers financial and cash flow position to maximize recoveries and collections from the customers and facilitate them to manage their cash flows efficiently to reduce their credit risk. These contracts are marked as restructured and would trigger the SICR if flagged due to credit reasons and would be mapped as qualitative indicator in ECL model and reviewed periodically.

Definition of Default

The Company considers the customer under default under IFRS 9 if;

- The days past due (DPD) is more than 89 days;
- The customer is flagged as default when the customer's probability of non-payment is increased or unlikely of payment of credit obligation under qualitative norms or due to one of the parameters under SICR triggers.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(i) Credit risk measurement (continued)

Expected Credit Losses
ECL has been calculated at facility level. ECL requires to be calculated for each qualifying exposure based on the data from each reporting date. It is a function of PD, LGD and EAD. ECL is calculated by marginal losses approach. In this approach, ECL is calculated as sum of marginal losses in each time period from the reporting date.

The key inputs for computation of ECL are given below;

- Exposure at Default (EAD)
- Probability of Default (PD)
- Loss Given Default (LGD
- Discount Factor (DF)

The calculation of the ECL allowance is impacted by a number of other factors as given below:

- Transfer of account from stage 1 to stage 2 or stage 3 due to significant changes in credit risk resulting in subsequent movement from 12-month PD rates to Life-time PD rates
- Changes in ECL methodology calculation due to changes in PD rates, LGD rates, EAD due to changes in the portfolio behaviour and new PD rates or macro-economic variables entered in the ECL model during the period
- Change in ECL methodology due to new assumptions and updation in the model during the period
- Change in time value of the financial instrument due to restructuring of facility resulting in change of discounting factor

Exposure at Default (EAD)
EAD is the predicted or existing amount of loss the Company may be exposed to when a debtor defaults on a loan. The Company calculates an EAD value for each loan and then use these figures to determine their overall default risk. EAD is a dynamic number that changes as a borrower repays the Company.

Probability of Default (PD)
PD refers to the likelihood of a default occurring and is a measure of the risk of default. Typically, default rate or probability of default is the ratio of number of defaulted customers with that of the base customers during a specific time period (usually a year).

The derived PD is typically known as Through the Cycle or TTC which is purely based on the historic data while it gets complimented with macroeconomic factors and turns in point in time or PiT PD. Finally, the PiT PD are extended based on the forecasts of the future macroeconomic condition called as point in time and forward-looking PD.

Loss Given Default (LGD)
LGD is the likely economic loss in the event of default. The Company has adopted FIRB approach for computing LGD. In this approach, the LGD computation is based on the level of collateralization post haircuts prescribed by Basel. Composite LGD based on secured and unsecured portion is then used as one of the component to compute ECL.

Discounting Factor
The Company is using contractual interest rate for ECL discounting. Discount factor for period *t*, calculated using the effective interest rate provided.

Information of forward- looking criteria incorporated in ECL computation
In IFRS 9, the Company has incorporated forward looking parameters of macro-economic variables using statistical modelling to estimate the 12 months and Lifetime PIT PDs. The key macro-economic variables has been established based on correlation factor to our historical PDs. TTC PDs are derived based on the Company's historical performance and are roll rate-based approach for Retail while rating migration for Corporate portfolio. Internal rating for Corporates is derived based on various parameters on quantitative and qualitative factors which is aggregated to obtain a score for a particular rating level.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(i) Credit risk measurement (continued)

Important accounting judgements and estimations

The calculation of the ECL allowance for finance lease, working capital and factoring receivables requires the use of statistical models and use of assumptions with respect to forecasted micro-economic conditions, external ratings and credit risk behaviour and changes which may result in the likeness of the contracts defaulting and resulting in losses.

Grouping of related financial assets for calculating ECL allowance

The related financial assets are grouped in the calculating the ECL based on the asset type product in the model which are retail and corporate.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Comparison of provision held as per IFRS 9 and required as per CBO norms

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Amount as per CBO norms	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9 for the year	Reserve interest as per CBO norms
2019		RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(10)	(7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	139,735	-	1,855	(1,855)	139,735	137,880	-	-
Standard	Stage 2	28,966	-	3,836	(3,836)	28,966	25,130	-	-
	Stage 3	282	-	93	(93)	282	189	-	-
Subtotal		168,983	-	5,784	(5,784)	168,983	163,199	-	-
	Stage 1	207	10	4	7	196	203	-	1
Special Mention	Stage 2	148	7	6	1	141	142	-	-
	Stage 3	6,514	316	1,794	(1,276)	5,996	4,720	-	202
Subtotal		6,869	333	1,804	(1,268)	6,333	5,065	-	203
	Stage 1	23	6	1	5	17	22	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	4,522	1,095	1,197	42	3,283	3,325	-	144
Subtotal		4,545	1,101	1,198	47	3,300	3,347	-	144
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	8	2	-	2	6	8	-	-
	Stage 3	2,434	980	658	479	1,297	1,776	-	157
Subtotal		2,442	982	658	481	1,303	1,784	-	157
	Stage 1	7	3	1	2	4	6	-	-
Loss	Stage 2	45	38	1	37	7	44	-	-
	Stage 3	13,289	9,639	4,565	6,485	2,239	8,724	-	1,411
Subtotal		13,341	9,680	4,567	6,524	2,250	8,774	-	1,411
	Stage 1	139,972	19	1,861	(1,841)	139,952	138,111	-	1
Sub Total	Stage 2	29,167	47	3,843	(3,796)	29,120	25,324	-	-
	Stage 3	27,041	12,030	8,307	5,637	13,097	18,734	-	1,914
	Total	196,180	12,096	14,011	-	182,169	182,169	-	1,915
Other items not covered	Stage 1	923	-	481	(481)		442	-	-
under CBO circular BM 977	Stage 2	-	-	-	-		-	-	-
and related instructions	Stage 3	-	-	-	-		-	-	-
	Total	923	-	481	(481)		442	-	-
Total		197,103	12,096	14,492	(481)		182,611	-	1,915

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 **Financial risk management** (continued)

3.1 **Financial risk factors** (continued)

(b) *Credit risk* (continued)

Comparison of provision held as per IFRS 9 and required as per CBO norms (continued)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Amount as per CBO norms	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9 for the year	Reserve interest as per CBO norms
2018		RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(10)	(7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	145,215	-	1,675	(1,675)	145,215	143,540	-	-
Standard	Stage 2	12,818	-	2,454	(2,454)	12,818	10,364	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		158,033	-	4,129	(4,129)	158,033	153,904	-	-
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,395	164	1,261	(983)	3,117	2,134	-	114
Subtotal		3,395	164	1,261	(983)	3,117	2,134	-	114
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,406	571	901	(208)	1,713	1,505	-	122
Subtotal		2,406	571	901	(208)	1,713	1,505	-	122
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,499	566	588	76	835	911	-	98
Subtotal		1,499	566	588	76	835	911	-	98
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	9,186	6,796	4,263	3,688	1,235	4,923	-	1,155
Subtotal		9,186	6,796	4,263	3,688	1,235	4,923	-	1,155
	Stage 1	145,215	-	1,675	(1,675)	145,215	143,540	-	-
Sub Total	Stage 2	12,818	-	2,454	(2,454)	12,818	10,364	-	-
	Stage 3	16,486	8,097	7,013	2,573	6,900	9,473	-	1,489
	Total	174,519	8,097	11,142	(1,556)	164,933	163,377	-	1,489
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,022	-	324	(324)		698	-	-
	Stage 2	-	-	-	-		-	-	-
	Stage 3	-	-	-	-		-	-	-
	Total	1,022	-	324	(324)		698	-	-
Total		175,541	8,097	11,466	(1,880)		164,075	-	1,489

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 **Financial risk management** (continued)

3.1 **Financial risk factors** (continued)

(b) Credit risk (continued)

(i) Credit risk measurement (continued)

Comparison of provision held as per IFRS 9 and required as per CBO norms for restructured loans

Asset Classification as per CBO Norms 2019	Asset Classification as per IFRS 9	Gross Carrying Amount RO' 000	Provision required as per CBO Norms RO' 000	Provision held as per IFRS 9 RO' 000	Difference between CBO provision required and provision held RO' 000	Net Carrying Amount as per CBO norms RO' 000	Net Carrying Amount as per IFRS 9 RO' 000	Interest recognised in P&L as per IFRS 9 for the year RO' 000	Reserve interest as per CBO norms for the quarter RO' 000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(10)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	**Stage 1**	**99**	**-**	**2**	**(2)**	**99**	**97**	**-**	**-**
	Stage 2	**1,117**	**-**	**92**	**(92)**	**1,117**	**1,025**	**-**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Subtotal	**Total**	**1,216**	**-**	**94**	**(94)**	**1,216**	**1,122**	**-**	**-**
Classified as non-performing	**Stage 1**				**-**	**-**	**-**	**-**	**-**
	Stage 2	**34**	**31**	**1**	**30**	**3**	**33**	**-**	**-**
	Stage 3	**292**	**91**	**72**	**19**	**194**	**220**	**-**	**7**
Sub total	**Total**	**326**	**122**	**73**	**49**	**197**	**253**	**-**	**7**
Total	**Stage 1**	**99**	**-**	**2**	**(2)**	**99**	**97**	**-**	**-**
	Stage 2	**1,151**	**31**	**93**	**(62)**	**1,120**	**1,058**	**-**	**-**
	Stage 3	**292**	**91**	**72**	**19**	**194**	**220**	**-**	**7**
	Total	**1,542**	**122**	**167**	**(45)**	**1,413**	**1,375**	**-**	**7**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

3 **Financial risk management** (continued)

3.1 **Financial risk factors** (continued)

(b) *Credit risk* (continued)

(i) Credit risk measurement (continued)

Comparison of provision held as per IFRS 9 and required as per CBO norms for restructured loans (continued)

Asset Classification as per CBO Norms 2018	Asset Classification as per IFRS 9	Gross Carrying Amount RO' 000	Provision required as per CBO Norms RO' 000	Provision held as per IFRS 9 RO' 000	Difference between CBO provision required and provision held RO' 000	Net Carrying Amount as per CBO norms RO' 000	Net Carrying Amount as per IFRS 9 RO' 000	Interest recognised in P&L as per IFRS 9 for the year RO' 000	Reserve interest as per CBO norms for the quarter RO' 000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(10)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1				-	-	-		
	Stage 2	1,953	20	286	(266)	1,933	1,667		
	Stage 3				-	-	-		
Subtotal	Total	1,953	20	286	(266)	1,933	1,667	-	-
Classified as non-performing	Stage 1				-	-	-		
	Stage 2				-	-	-		
	Stage 3	250	115	106	20	124	144		11
Sub total	Total	250	115	106	20	124	144	-	11
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	1,953	20	286	(266)	1,933	1,667	-	-
	Stage 3	250	115	106	20	124	144	-	11
	Total	2,203	135	392	(246)	2,057	1,811	-	11

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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(i) Credit risk measurement (continued)

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

2019	**As per CBO Norms**	**As per IFRS 9***	**Difference**
Provisions required as per CBO norms / Allowance for ECL	**14,011**	**14,492**	**(481)**

2018	As per CBO Norms	As per IFRS 9	Difference
Provisions required as per CBO norms / Allowance for ECL	9,586	11,466	(1,880)

* RO 481 thousand (2018 – RO 324 thousand) relates to allowance for ECL on other assets and financial guarantees.

NPL ratio 2019	**As per CBO Norms**	**As per IFRS 9**	**Difference**
Gross NPL ratio (percentage)	**13.86%**	**13.86%**	**-**
Net NPL ratio (percentage)	**7.24%**	**10.05%**	**2.81%**

NPL ratio 2018	As per CBO Norms	As per IFRS 9	Difference
Gross NPL ratio (percentage)	9.45%	9.45%	-
Net NPL ratio (percentage)	4.20%	5.77%	1.57%

Based on the assessment undertaken to date, the existing provision for impairment as at 31 December 2019 is equal to the total estimated provision requirement on adoption of IFRS 9. However, this will be reassessed periodically and appropriately dealt with as per requirements.

(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.

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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(ii) Credit risk control and mitigation policies (continued)

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

	2019 RO'000	2018 RO'000
Exposure		
Bank balances	**3,806**	1,898
Statutory deposit	**250**	250
Net investment in finance leases	**168,201**	135,165
Working capital finance and factoring receivables	**13,968**	28,212
Other receivables	**68**	123
Total exposure	**186,293**	165,648

The above table represents a worst-case scenario of credit risk exposure of the Company at 31 December 2019 and 2018 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 reputed banks in the Sultanate of Oman.

(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	2019 RO'000	2018 RO'000
Gross investment in finance leases:		
Individual	**95,246**	92,221
Corporate	**129,931**	79,327
	225,177	171,548
Working capital finance and factoring receivables:		
Corporate	**13,968**	28,212

3 **Financial risk management** (continued)

3.1 **Financial risk factors** (continued)

(iii) Concentration of credit risk (continued)

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

	2019 RO 000	2018 RO 000
Gross investment in finance leases:		
Manufacturing	34,070	16,366
Trading and construction	34,622	15,979
Services	61,239	46,982
Individual	95,246	92,221
	225,177	171,548
Working capital finance and factoring receivables:		
Manufacturing	1,468	3,929
Trading and construction	10,449	15,490
Services	2,051	8,793
	13,968	28,212

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 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 the 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.

Net debt reconciliation

Refer below for the analysis of net debt and the movements in net debt:

Change in cash flows from financing activities (Principal)

Particulars	Cash flows from long term loans	Cash flows from short term loans	Cash flows from corporate and security deposits	Cash flows from Unsecured non-convertible bonds
At 1 January 2019	49,550	59,170	7,031	6,126
Additions during the year	55,884	34,855	5,800	24
Repayments during the year	(41,130)	(31,750)	(2,758)	-
At 31 December 2019	64,304	62,275	10,073	6,150
Change in cash flows	14,754	3,105	3,042	24

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Change in cash flows from financing activities (Principal) (continued)

Particulars	Cash flows from long term loans	Cash flows from short term loans	Cash flows from corporate and security deposits	Cash flows from Unsecured non-convertible bonds
At 1 January 2018	38,713	58,400	10,092	-
Additions during the period	45,700	33,570	4,429	6,150
Repayments during the period	(34,810)	(32,800)	(7,490)	-
Arrangement fee	(53)			(24)
At 31 December 2018	49,550	59,170	7,031	6,126
Change in cash flows	10,837	770	(3,061)	6,126

(d) Operational risk

The operational risk is defined as the risk of direct or indirect loss which may arise due to several reasons associated with the operations of the Company such as internal processes, individuals, infrastructure and technology, and due to reasons arising out of external factors other than Company's credit processes, market and liquidity risks. Operational risks arise from all of the Company's operations and external factors and are faced by the business entity.

The Company's primary objective is to put in place the necessary internal controls, periodic internal audits, checks and controls, technology updates and reviews to minimise operational risk. Specific audits are conducted by the Company's internal auditors and reports directly to the Audit and Risk Committee members.

The Company undertakes responsibility to implement internal checks and controls to mitigate operational risk by the following;

(i) Adherence to maker checker policy and delegation of powers by having proper approval matrix
(ii) Timely reconciliations and regular reviews of accounts
(iii) Documentation of policies, controls, procedures and manuals
(iv) Compliance with legal, statutory requirements and corporate governance.
(v) Develop business ethics and standards

3.2 Fair value 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. Carrying amounts of fixed deposits reasonably approximates fair value.

Except for financial assets at fair value through profit or loss, the Company's financial instruments are not carried at fair value in the statement of financial position. All financial assets (other than financial assets at fair value through profit or loss) and financial liabilities of the Company are carried at amortised cost in the statement of financial position.

3 Financial risk management (continued)

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 with regulations, the Company may take appropriate strategic decisions.

The Company has complied with CBO requirements of maintaining minimum paid up capital of RO 25 million.

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 as at 31 December is as follows:

	2019	2018
Total liabilities (RO'000)	**146,932**	126,689
Net equity (RO'000)	**41,763**	40,496
Net debt to net equity ratio (times)	**3.52**	3.13

4 Cash and cash equivalents

	2019 RO'000	2018 RO'000
Current accounts	**3,806**	1,898
Cash in hand	**76**	88
	3,882	1,986

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

	2019 RO'000	2018 RO'000
Gross investment in finance lease	**225,177**	171,548
Working capital finance and factoring receivables	**13,968**	28,212
Unearned finance income (refer 'b')	**(42,965)**	(25,241)
	196,180	174,519
Allowance for expected credit losses (ECL)	**(14,011)**	(11,142)
	182,169	163,377

(a) The table below represents analysis of gross lease and working capital receivables and present value of lease and working capital 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 2019				
Gross investment in lease, working capital finance and factoring receivables	**71,227**	**95,758**	**72,160**	**239,145**
Present value of gross investment in finance lease, working capital finance and factoring receivables	**58,249**	**75,876**	**62,055**	**196,180**
At 31 December 2018				
Gross investment in lease, working capital finance and factoring receivables	85,906	81,231	32,623	199,760
Present value of gross investment in finance lease, working capital finance and factoring receivables	75,052	70,967	28,500	174,519

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

(b) The movement of unearned finance income during the period was as follows:

	2019 RO'000	2018 RO'000
At 1 January	**25,241**	25,861
Additions during the year	**36,019**	14,328
Recognised during the year	**(18,295)**	(14,948)
At 31 December	**42,965**	25,241

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

	CBO Provisions and Reserve Interest RO'000	Allowance for ECL* RO'000	Difference RO'000
At 1 January 2019	9,586	11,466	(1,880)
At 31 December 2019	**14,011**	**14,492**	**(481)**

* RO 481 thousand (2018 – RO 324 thousand) relates to allowance for ECL on other assets and financial guarantees.

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.

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.

At 31 December 2019, stage 3 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 27.041 million (2018 - RO 16.486 million). Interest is reserved by the Company against net investment in finance leases, working capital finances and factoring receivables, which are under stage 3, to comply with the rules, regulations and guidelines issued by the CBO.

As per the calculations given by CBO extant guidelines, the Company has made provision against impaired assets, which are secured against leased assets. At 31 December 2019, impairment losses would have increased by RO 7.449 million (2018 - RO 3.557 million) had the benefit of the collateral not been obtained by the Company for the impaired leases. Out of the total provision of RO 14.011 million (2018 - RO 9.586 million) for impairment, RO 12.096 million (2018 - RO 8.097 million) is against specific impaired finance leases and RO 1.915 million (2018 - RO 1.489 million) is unrecognised contractual income.

The Company also takes into account the regulations issued by the CBO for assessing the provisioning requirements and calculation of ECL allowance as per IFRS 9. The standard accounts and rentals overdue by 1 day but less than 31 days are considered as stage 1 accounts, rentals overdue by 31 days but less than 90 days are considered as stage 2 accounts and accounts over 90 days are considered as stage 3 accounts. In case of stage 1 and stage 2 accounts falling under qualitative classification due to other objective information, will be classified as stage 3.

The increase in stage 3 portfolio in the year 2019 is mainly due to general liquidity constraints which has resulted in timing mismatch and non-receipt of receivables by the contractors / sub-subtractors and delay in payments by the contractors.

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

The loss allowances for ECL as at 31 December reconcile to the opening loss allowances as follows:

	Net investment in finance leases, working capital finance and factoring receivables		Other assets and financial guarantees		Total	
	2019 RO'000	2018 RO'000	2019 RO'000	2018 RO'000	2019 RO'000	2018 RO'000
At 1 January	11,142	9,128	324	240	11,466	9,040
Charge for the year	2,442	1,594	111	6	2,553	1,600
Reserve interest	427	420	-	-	427	748
Write back during the year	-	-	46	78	46	78
At 31 December	14,011	11,142	481	324	14,492	11,466

(d) An analysis of portfolio under different stages of net investment in finance leases, working capital finance and factoring receivables is summarised below:

	2019 RO'000	2018 RO'000
Portfolio under stages		
Stage 1	139,972	145,215
Stage 2	29,167	12,818
Stage 3	27,041	16,486
Gross investment in finance leases, working capital finance and factoring receivables	196,180	174,519
Allowance for ECL	(14,011)	(11,142)
Net investment in finance leases, working capital finance and factoring receivables	182,169	163,377

(e) Past due but not impaired

	2019 RO'000	2018 RO'000
Past due up to 30 days	24,467	13,899
Past due 31 - 60 days	15,266	7,103
Past due 61 - 89 days	4,782	4,973
	44,515	25,975

(f) Allowance for ECL on net investment in finance leases, working capital finance and factoring receivables

	2019 RO'000	2018 RO'000
Stage 1	1,861	1,675
Stage 2	3,843	2,454
Stage 3	8,307	7,013
	14,011	11,142

(g) 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 2,186,183 at 31 December 2019 (2018 - RO 668,750). Out of those, 17 contracts (2018 – one contract) amounting to RO 333,917 (2018 - RO 108,832) are classified as at 31 December 2019.

6 Other receivables and prepayments

	2019 RO'000	2018 RO'000
Prepaid expenses	336	171
Unamortised dealer commission	46	132
Other receivables	549	447
	931	750
Allowance for ECL against other receivables [refer 6(a)]	(475)	(318)
	456	432

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

7 Financial assets at fair value through other comprehensive income

	2019 RO'000	2018 RO'000
The Arab Leasing Company Limited	-	-

The Company has investment in a foreign unquoted equity security which is classified as financial asset at fair value through other comprehensive income. The fair value of this investment has been assessed as RO nil.

8 Vehicles, equipment and right-of-use assets

	Motor Vehicles RO'000	Office and computer equipment RO'000	Furniture and fixtures RO'000	Right-of-use assets RO'000	Total RO'000
Cost					
At 1 January 2019	59	1,319	530	-	1,908
Recognition of right-of-use assets	-	-	-	510	510
Additions	142	66	168	62	438
Disposals	(37)	-	-	-	(37)
At 31 December 2019	164	1,385	698	572	2,819
Accumulated depreciation					
At 1 January 2019	42	1,070	453	-	1,565
Charge for the year	39	114	30	171	354
Disposals	(22)	-	-	-	(22)
At 31 December 2019	59	1,184	483	171	1,897
Net book value					
At 31 December 2019	105	201	215	401	922

	Motor vehicles RO'000	Office and computer equipment RO'000	Furniture and fixtures RO'000	Total RO'000
Cost				
At 1 January 2018	71	1,197	521	1,789
Additions	-	122	9	131
Disposals	(12)	-	-	(12)
At 31 December 2018	59	1,319	530	1,908
Accumulated depreciation				
At 1 January 2018	44	929	406	1,379
Charge for the year	10	141	47	198
Disposals	(12)	-	-	(12)
At 31 December 2018	42	1,070	453	1,565
Net book value				
At 31 December 2018	17	249	77	343

9 Statutory deposit

The Company is required to maintain a deposit of RO 250,000 (2018 - RO 250,000) with the Central Bank of Oman, which is restricted in nature, in accordance with the applicable licensing regulations. During the year, the deposit earned interest at the rate of 1.5% (2018 - 1.5%) per annum. The Company is in compliance with the requirement of FM 29 circular dated 15 June 2011.

10 Creditors, accruals and other liabilities

	2019 RO'000	2018 RO'000
Leased assets payable	576	1,678
Accruals for expenses	728	724
Lease liability	332	-
Provision for employees' end of service benefits (note 10.1)	216	164
Other liabilities	180	16
Allowance for ECL against counter guarantees given to banks (refer 22)	6	6
	2,038	2,588

10.1 Provision for employees' end of service benefits

	2019 RO'000	2018 RO'000
At 1 January	164	131
Charge for the year (note 17.1)	67	33
Paid during the year	(15)	-
At 31 December	216	164

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the net present value of its obligations as at 31 December 2019 and 2018, using the projected unit credit method, in respect of employees' end of service benefits payable under the Oman Labour Law 2003 and the Social Security Law of 1991. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 6% (2018 - 6%) per annum. Under this method, an assessment has been made of an employee's expected service life with the Company and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 3% (2018 - 3%) per annum.

11 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 63.18 million (2018 - RO 66.20 million), which are entirely secured against pari-passu charges over net investment in finance leases, working capital finance and factoring receivables. Interest on bank overdraft and short-term bank loans ranged between 5% to 6.25% (2018 - 3% to 6%) 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:

	2019 RO'000	2018 RO'000
Bank overdrafts	-	466
Short-term loans	62,520	59,232
	62,520	59,698

12 Long-term loans

The Company has entered into long term loan facility agreements with commercial banks. The aggregate contractual limit of long-term loans is RO 98.94 million (2018 - RO 73.211 million). These loans carry interest at rates ranging between 4.50% to 6.50% (2018 - 4.40% to 5.90%) per annum and are secured by a pari-passu charge over the total assets of the Company. The maturity dates of the aforementioned facilities range from January 2020 to November 2023.

Current portion of long-term loans as at 31 December 2019 amounted to RO 38.100 million (2018 - RO 28.189 million).

There is no default or breach of terms and conditions of the loan agreements during the period ended 31 December 2019 and 2018.

At 31 December 2019, the company had undrawn bank facilities amounting to RO 22.7 million.

12(a) Unsecured non-convertible bonds

The Company issued unsecured non-convertible bonds for an amount of RO 6.150 million on 22 May 2018 for a period of 2 years. The coupon rate is 5% (2018 – 5%) per annum.

	2019 RO'000	2018 RO'000
Issue of Bonds	6,183	6,159
	6,183	6,159

13 Corporate and security deposits

	2019 RO'000	2018 RO'000
Corporate deposits	9,760	6,724
Security deposits	491	498
	10,251	7,222

The Company accepts term deposits from corporate customers in accordance with the Central Bank of Oman guidelines for a minimum period of 6 months. The interest rates on corporate and security deposits range between 2.75% to 6.25% per annum (2018 - 2.75% to 5.25% 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 (2018 - RO 2,000) which is interest free.

14 Shareholders' equity

(a) Share capital

The authorised share capital comprises 300,000,000 ordinary shares (2018 - 300,000,000 ordinary shares). The Company's issued and fully paid-up share capital comprises of 253,590,000 ordinary shares (2018 - 253,590,000 ordinary shares). 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:

	2019		2018	
	Shareholding %	Shares held	Shareholding %	Shares held
Oman Investment Fund	33.63	85,287,298	33.63	85,287,298
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

14 Shareholders' equity (continued)

(b) Legal reserve

In accordance with article 132 of the Commercial Companies Law of 2019, annual appropriations of 10% amounting to RO 380 thousand (2018 – RO 487 thousand) from 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) Dividend is not accounted for until it has been approved at the Annual General Meeting (AGM). The Board of Directors has proposed a cash dividend amounting to RO. 2.029 million for the year ended 31 December 2019 (2018- cash dividend RO 2.536 million) subject to approval of shareholders at the AGM.

The financial statements for the year ended 31 December 2019 do not reflect this dividend, which will be accounted for in shareholders equity as an appropriation of retained earnings for the year ending 31 December 2020.

15 Net assets per share

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

	2019	2018
Net equity (RO'000)	41,763	40,496
Number of ordinary shares outstanding at 31 December (Numbers 000)	253,590	253,590
Net assets per share (baizas)	165	160

16 Other operating income

	2019 RO'000	2018 RO'000
Insurance charges	737	519
Services charges	747	845
Foreclosure charges	79	152
	1,563	1,516

17 Operating expenses

	2019 RO'000	2018 RO'000
Staff costs (note 17.1)	3,479	2,937
Professional fees and subscriptions	220	159
Communication costs	194	171
Travelling expenses	176	53
Directors' remuneration and sitting fees (note 21)	114	165
Advertising and sales promotion	61	80
IT maintenance and license fees	52	37
Printing and stationery expenses	50	40
Occupancy costs	43	250
Annual general meeting expenses	10	4
Insurance	13	10
Donations	11	8
Collection and recovery expenses	1	16
Other office expenses	99	87
	4,523	4,017

17.1 Components of staff costs

	2019 RO'000	2018 RO'000
Wages and salaries	2,985	2,510
Other benefits	247	246
Contribution to defined contribution plan	180	148
Charge for end of service benefits (note 10.1)	67	33
	3,479	2,937

18 Taxation

(a) Components of tax expense:

	2019 RO'000	2018 RO'000
Current tax - current year	1,150	916
Current tax - prior years	(65)	31
Deferred tax - current year	(448)	(132)
Deferred tax - prior years	229	(490)
	866	325

(b) Breakup of tax liability is as follows:

	2019 RO'000	2018 RO'000
Current liability		
- Current year	1,150	916
- Prior years	455	375
	1,605	1,291

(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 15% (2018 - 15%) of taxable profits. The following is a reconciliation of income taxes calculated on accounting profits at the applicable tax rates with the income tax expense for the year:

	2019 RO'000	2018 RO'000
Accounting profit before taxation	4,669	5,192
Income tax expense computed at applicable tax rates	700	779
Non-deductible expenses	2	-
Effect of prior period adjustment	(65)	168
Tax effect of deferred tax assets	229	(622)
	866	325

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

	2019 RO'000	2018 RO'000
At 1 January	1,291	1,199
Current tax for the year	1,150	916
Current tax – prior years	(65)	31
Paid during the year	(771)	(855)
At 31 December	1,605	1,291

18 Taxation (continued)

(e) Status of the tax assessments

The tax returns of the Company for the tax years 2017 to 2019 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 2019.

(f) Deferred tax asset

Deferred income taxes are calculated on all taxable temporary differences using a principal tax rate of 15% (2018 - 15%). Deferred tax assets and the deferred tax charge in the statement of profit or loss and other comprehensive income are as follows:

Deferred tax asset/(liability)	**1 January 2019 RO'000**	**Recognised in the statement of profit or loss and other comprehensive income RO'000**	**Recognised in equity RO'000**	**31 December 2019 RO'000**
Vehicles and equipment	**16**	**(7)**	**-**	**9**
Provisions for other receivables	**47**	**25**	**-**	**72**
Provision for impairment of net investment in finance leases, working capital finance and factoring receivables	**656**	**202**	**-**	**858**
Impairment of financial assets at fair value through other comprehensive income	**78**	**-**	**-**	**78**
Right-of-use assets and lease liabilities	**-**	**(1)**	**-**	**(1)**
Deferred tax asset - net	**797**	**219**	**-**	**1,016**

Deferred tax asset	1 January 2018 RO'000	Recognised in the statement of profit or loss and other comprehensive income RO'000	Recognised in equity RO'000	31 December 2018 RO'000
Vehicles and equipment	17	(1)	-	16
Provisions for other receivables	-	36	11	47
Provision for impairment of net investment in finance leases, working capital finance and factoring receivables	69	587	-	656
Impairment of financial assets at fair value through other comprehensive income	-	-	78	78
Deferred tax asset	86	622	89	797

19 Basic and diluted earnings per share

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

	2019	2018
Profit for the year (RO'000)	3,803	4,867
Weighted average number of shares during the period (Numbers 000)	253,590	253,590
Basic and diluted earnings per share (baizas)	15.00	19.19

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 Board of Directors.

The Company maintains significant balances with these related parties which arise in the normal course of business.

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:

	2019 RO'000	2018 RO'000
Transactions with related parties:		
Interest on bank loans and bonds	1,473	857
Interest on corporate and security deposits	37	41
Finance income	4	3
Medical and credit life insurance premium	-	87
Related party balances:		
Bank borrowings and bonds	24,917	20,500
Net investment in finance leases	50	21
Corporate and security deposits	-	500

21 Compensation of key management personnel

Key management personnel are those personnel 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:

	2019 RO'000	2018 RO'000
Salaries and other benefits to key management personnel	564	417
Directors' sitting fees (note 17)	85	80
Directors' remuneration (note 17)	29	85

22 Contingent liabilities

The Company has given counter guarantees to a commercial bank to the extent of RO 374,176 (2018 - RO 574,676) in respect of performance bonds, advance payment guarantees, letters of credit, etc. issued by the banks on behalf of the Company's customers.

	2019 RO'000	2018 RO'000
Counter guarantees	374	575
Allowance for ECL (refer 10)	(6)	(6)
Net amount	368	569

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 2019 is considered by the management not to be materially different from their carrying values.

Estimation of fair values

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

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 repayment 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 fair value of net investment in finance leases, working capital finance and factoring receivable at 31 December 2019 is RO 191.400 million. 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.

Fair value versus carrying amounts

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

23 Fair value information (continued)

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).

24 Segment analysis

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

	2019 RO'000			2018 RO'000		
	Retail	**Corporate**	**Total**	Retail	Corporate	Total
Income						
Finance income	**7,962**	**10,333**	**18,295**	7,748	7,200	14,948
Interest expense			**(7,759)**			(5,457)
Net income from financing activities			**10,536**			9,491
Other operating income			**1,563**			1,516
Total income			**12,099**			11,007
Expenses						
General and administrative expenses			**(4,523)**			(4,017)
Depreciation			**(354)**			(198)
Allowance for ECL	**(1,133)**	**(1,420)**	**(2,553)**	(704)	(896)	(1,600)
Profit before taxation			**4,669**			5,192
Taxation			**(866)**			(325)
Profit for the year			**3,803**			4,867
Assets						
Net investment in finance leases, working capital finance and factoring receivables	**71,448**	**110,721**	**182,169**	71,888	91,489	163,377
Other assets			**6,526**			3,808
Total assets			**188,695**			167,185
Liabilities						
Total liabilities			**146,932**			126,689

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

Geographic operating segments

All Company's leasing activities are carried out in the Sultanate of Oman.

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 repricing or maturity dates as on 31 December 2019 and 2018:

	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 2019							
Financial assets							
Cash and cash equivalents	-	-	-	-	-	3,882	3,882
Net investment in finance leases	10,558	17,330	19,653	64,978	55,682	-	168,201
Working capital finance and factoring receivables	1,045	2,377	3,126	5,479	1,941	-	13,968
Other receivables	-	-	-	-	-	68	68
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-
Statutory deposit	-	-	-	-	-	250	250
Total financial assets	11,603	19,707	22,779	70,457	57,623	4,200	186,369
Financial liabilities							
Bank overdrafts and short-term loans	38,220	24,300	-	-	-	-	62,520
Creditors, accruals and other liabilities	-	-	-	-	-	1,822	1,822
Unsecured non-convertible bonds	-	-	6,183	-	-	-	6,183
Corporate and security deposits	192	1,863	5,493	2,703	-	-	10,251
Long term loans	4,054	17,548	16,529	25,704	500	-	64,335
Total financial liabilities	42,466	43,711	28,205	28,407	500	1,822	145,111
Interest rate sensitive gap	(30,863)	(24,004)	(5,426)	42,050	57,123	2,378	41,258
Cumulative gap	(30,863)	(54,867)	(60,293)	(18,243)	38,880	41,258	

	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 2018							
Financial assets							
Cash and cash equivalents	-	-	-	-	-	1,986	1,986
Net investment in finance leases	6,259	22,746	19,142	60,326	26,692	-	135,165
Working capital finance and factoring receivables	1,772	9,380	10,955	6,105	-		28,212
Other receivables	-	-	-	-	-	123	123
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-
Statutory deposit	-	-	-	-	-	250	250
Total financial assets	8,031	32,126	30,097	66,431	26,692	2,359	165,736
Financial liabilities							
Bank overdrafts and short-term loans	50,348	9,350	-	-	-	-	59,698
Creditors, accruals and other liabilities	-	-	-	-	-	2,605	2,605
Unsecured non-convertible bonds	-	-	-	6,159	-	-	6,159
Corporate and security deposits	691	3,284	1,715	1,532	-	-	7,222
Long term loans	3,051	12,203	12,936	21,360	-	-	49,550
Total financial liabilities	54,090	24,837	14,651	29,051	-	2,605	125,234
Interest rate sensitive gap	(46,059)	7,289	15,446	37,380	26,692	(246)	40,502
Cumulative gap	(46,059)	(38,770)	(23,324)	14,056	40,748	40,502	

25 Financial instruments and financial risk management (continued)

(a) Interest rate risk (continued)

Net investment in finance leases, working capital finance and factoring receivables carry interest rates ranging between 0% to 12% (2018 - 0% to 12%) 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 2019 and 2018 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 amounts.

	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
December 2019							
Financial assets							
Cash and cash equivalents	-	-	-	-	-	3,882	3,882
Net investment in finance leases,	10,668	22,535	27,303	84,668	65,992	-	211,166
Working capital finance and factoring receivables	1,045	2,377	3,126	5,479	1,941		13,968
Other receivables	-	-	-	-	-	68	68
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-
Statutory deposit	-	-	-	-	-	250	250
Non-financial assets							
Prepayments	-	-	-	-	-	388	388
Deferred tax	-	-	-	-	-	1,016	1,016
Vehicle, equipment and right-of-use assets	-	-	-	-	-	922	922
Total assets							
Equity	11,713	24,912	30,429	90,147	67,933	6,526	231,660
Share capital and reserves	-	-	-	-	-	41,763	41,763
Financial liabilities							
Bank overdrafts and short-term loans	38,220	24,300	-	-	-	-	62,520
Creditors, accruals and other liabilities	-	-	-	-	-	1,822	1,822
Corporate and security deposits	192	1,863	5,493	2,703	-		10,251
Unsecured non-convertible bonds	-	-	6,183	-	-	-	6,183
Long term loans	3,772	17,985	16,729	26,731	654	-	65,871
Non-financial liabilities							
Provision for employees' end of service benefits	-	-	-	-	216	-	216
Tax payable	-	1,605	-	-	-	-	1,605
Total equity and liabilities	42,184	45,753	28,405	29,434	870	43,585	190,231
Liquidity gap	(30,471)	(20,841)	2,024	60,713	67,063	(37,059)	41,429
Cumulative liquidity gap	(30,471)	(51,312)	(49,288)	11,425	78,488	41,429	

25 Financial Instruments and financial risk management (continued)

(b) Liquidity risk (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
December 2018							
Financial assets							
cash equivalents	-	-	-	-	-	1,986	1,986
Net investment in finance leases	7,500	27,709	23,792	70,589	30,816	-	160,406
Working capital finance and factoring receivables	1,772	9,380	10,955	6,105	-		28,212
Other receivables	-	-	-	-	-	123	123
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-
Statutory deposit	-	-	-	-	-	250	250
Non-financial assets							
Prepayments	-	-	-	-	-	309	309
Deferred tax	-	-	-	-	-	797	797
Vehicle and equipment	-	-	-	-	-	343	343
Total assets	9,272	37,089	34,747	76,694	30,816	3,808	192,426
Equity							
Share capital and reserves	-	-	-	-	-	40,496	40,496
Financial liabilities							
Bank overdrafts and short-term loans	50,348	9,350	-	-	-	-	59,698
Creditors, accruals and other liabilities	-	-	-	-	-	2,605	2,605
Corporate and security deposits	691	3,284	1,715	1,532	-	-	7,222
Unsecured non-convertible bonds	-	-	-	6,159			6,159
Long term loans	3,181	13,039	13,391	22,704	-	-	52,315
Non-financial liabilities							
End of service benefits	-	-	-	-	164	-	164
Tax payable	-	1,291	-	-	-	-	1,291
Total equity and liabilities	54,220	26,964	15,106	30,395	164	43,101	169,950
Liquidity gap	(44,948)	10,125	19,641	46,299	30,652	(39,293)	22,476
Cumulative liquidity gap	(44,948)	(34,823)	(15,182)	31,117	61,769	22,476	

The Company has un-utilised credit facilities as at reporting date to mitigate the impact of negative mismatch. Please refer to note 12 for details of un-utilised credit facilities.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

26 Financial instruments by category

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

2019	Financial assets at fair value through other comprehensive income RO'000	Amortised cost RO'000	Total carrying amount RO'000
Financial assets			
Cash and cash equivalents	-	3,882	3,882
Net investment in finance leases	-	168,201	168,201
Working capital finance and factoring receivables	-	13,968	13,968
Other receivables	-	68	68
Financial assets at fair value through other comprehensive income	-	-	-
Statutory deposit	-	250	250
Total financial assets	-	186,369	186,369

	Total carrying amounts RO'000
Financial liabilities (all at amortised cost)	
Bank overdrafts and short-term loans	62,520
Creditors, accruals and other liabilities (excluding end of service benefits)	1,822
Unsecured non-convertible bonds	6,183
Corporate and security deposits	10,251
Long term loans	64,335
Total financial liabilities	145,111

2018	Financial assets at fair value through other comprehensive income RO'000	Amortised cost RO'000	Total carrying amount RO'000
Financial assets			
Cash and cash equivalents	-	1,986	1,986
Net investment in finance leases	-	135,165	135,165
Working capital finance and factoring receivables	-	28,212	28,212
Other receivables	-	123	123
Financial assets at fair value through other comprehensive income	-	-	-
Statutory deposit	-	250	250
Total financial assets	-	165,736	165,736

	Total carrying amount RO'000
Financial liabilities (all at amortised cost)	
Bank overdrafts and short-term loans	59,698
Creditors, accruals and other liabilities (excluding end of service benefits)	2,605
Unsecured non-convertible bonds	6,159
Corporate and security deposits	7,222
Long term loans	49,550
Total financial liabilities	125,234

27 Corresponding figures

Certain corresponding figures for the previous year have been re-classified, where necessary, in order to conform to the current year's presentation. Such re-classifications did not result in changes to previously reported comprehensive income or equity. The details of the re-classification are as follows:

	2018 RO'000 (Re-classified)	2018 RO'000 (Previously reported)
ASSETS		
Other receivables and prepayments	432	426
LIABILITIES		
Creditors, accruals and other liabilities	2,588	3,049
Bank overdrafts and short-term loans	59,698	59,636
Unsecured non-convertible bonds	6,159	6,126
Corporate and security deposits	7,222	7,031
Long-term loans	49,731	49,550
Total liabilities	125,398	125,392

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