شركة تأجير للتمويل

Taageer Finance
Co. S.A.O.G

2020
ANNUAL REPORT

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شركة تأجير للتمويل (ش م ع ع)

Taageer Finance
Co. S.A.O.G

(Best Non-Banking Finance Company
by Oman Economic Review)

His Majesty Sultan Qaboos Bin Said

Sultan of Oman - May Allah rest his Soul in Peace

His Majesty Sultan Haitham Bin Tariq

Sultan of Oman

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Vision

"To be a leading finance company in the region"

Mission

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

COMPANY INFORMATION

Scope of Activities

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

Bankers

Bank Muscat (SAOG)

Bank Dhofar (SAOG)

National Bank of Oman (SAOG)

Oman Arab Bank (SAOG)

Ahli Bank (SAOG)

Bank Sohar (SAOG)

Qatar National Bank (Oman)

Regulatory Authority

Central Bank of Oman

Capital Market Authority

Statutory Auditors

KPMG

Legal Advisors

Al Busaidy Mansoor Jamal

Registered Office

P.O. Box 200,

Postal Code 136, MGM,

Sultanate of Oman

Head Office - Al Khuwair

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info@taageer.com, www.taageer.com

Branch Offices

AL KHUWAIR

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Fax : (+968) 24488592

WATTYAH

Tel : (+968) 24564561

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BARKA

Tel : (+968) 26883603

Fax : (+968) 26883619

NIZWA

Tel : (+968) 25414420

Fax : (+968) 25414425

SALALAH

Tel : (+968) 23296288

Fax : (+968) 23296955

AL KAMIL

Tel : (+968) 24839800

Fax : (+968) 24488641

BOARD OF DIRECTORS

Sheikh Rashid bin Saif Al Saadi
Chairman

Sheikh Khalid Mohamed Hamoodah
Vice Chairman

Mr. Fahad Abdulla Al Haqbani
Director

Mr. Hussain Mohamed Redha
Director

Mr. Saleh Nasser Al Riyami
Director

Mr. Said Ahmed Safrar
Director

Engr. Ahmed Hamed Al Subhi
Director

Mrs. Nafiseh Sadat Safavi Mobarhani
Director

Mrs. Rasha Abdulhussain Jaffar Sulaiman
Director

AUDIT & RISK COMMITEE

Mr. Saleh Nasser Al Riyami
Chairman

Sheikh Khalid Mohamed Al Hamoodah
Member

Mr. Said Ahmed Safrar
Member

Ms. Rasha Abdulhussain Jaffer Sulaiman
Member

EXECUTIVE, NOMINATION & REMUNERATION COMMITEE

Sheikh Rashid bin Saif Al Saadi
Chairman

Mr. Hussain Mohamed Redha
Member

Mr. Fahad Abdullah Al Haqbani
Member

Engr. Ahmed Hamed Al Subhi
Member

Mrs. Nafiseh Sadat Safavi Mobarhani
Member

شركة تأجير للتمويل ش م ع ع
TaageerFinance Co. S.A.O.G

MANAGEMENT

Shahin Mohammed Al Balushi
Chief Executive Officer

Muhammad Kashif Yaqoob
Deputy Chief Executive Officer

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

Mohammed Ali Ibrahim Al Maimani
Assistant General Manager
Operations and Controls

N.V.H. Sastry
Financial Controller

Mohammed bin Bader Al Busaidy
Senior Manager
Corporate Communications

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors of Taageer Finance Company SAOG, I am pleased to present the audited financial statements for the year ended 31st December 2020.

Performance Summary

Financial results for the year 2020 indicate that the company has made efforts to maintain its portfolio size. Company's Gross portfolio stood at RO 243.19 Million as on 31st December 2020 as compared to RO 239.15 million as on 31st December 2019 thereby registering a minor increase of 1.69% during challenging times in 2020. Total Income for the year ended December 31, 2020 were RO 17.9 million as compared to RO 19.9 million for the year ended December 31, 2019.

The Interest Expenses for the year 2020 stood at RO 8.43 Million as compared to RO 7.8 million for the year 2019.

The Company registered Profit of RO 4.47 Million before Expected Credit Losses (ECL) charge and taxation for the year 2020 as against RO 7.22 Million for the previous year. The Net Profit after ECL charge and Taxation stood at RO 2.070 Million for the year 2020 vis-à-vis RO 3.803 Million for the year 2019.

The Company allocated RO 2.02 Million towards ECL for the year 2020 with a cumulative allocation of RO 16.951 Million as at the end of the year 2020 as per IFRS 9 requirements on the Net Investment Portfolio. It has maintained its approach towards prudence in allocation to ECL.

During the year 2020 a new branch at Al Kamil was opened to cater to the customers in Sharqiyah Region with a view to improve customer service and offer better proximity to dealers, resulting in enhanced customer experience.

Impact of COVID-19 and Taageer's measures

In 2020, the largest health and economic crisis in recent history forced companies across sectors into extraordinary measures to protect their people and maintain operations. The Pandemic created a sense of panic and business entities irrespective of size and composition were forced to initiate precautionary measures and scale down businesses like never before.

Your Company, with the guidelines and the directives issued by the Central Bank of Oman during 2020, initiated various measures to facilitate deferment requests received from customers within the stipulated rules and parameters prescribed. Pro-active measures to ensure healthy and safety of the employees and the customers were initiated with the guidance of the decisions announced by the Supreme Committee.

As a part of the social distancing and contactless transaction initiative your Company also responded to provide customer convenience through, digital transactions channels like payments through Debit Cards, Direct Transfer to Bank Account and through Mobile Application. The customers were continuously updated through social media to make them aware of safety and convenience measures provided to them from time to time.

Change in the Composition of the Board

During the year 2020, pursuant to the amendment to the Articles of Association approved at the Extra Ordinary General meeting, the number of members in the Board was increased from eight to nine. Accordingly, Ms. Rasha Abdulhussain Jaffer Sulaiman was elected to the Board as an Independent Director.

Proposed Dividends

No dividend is proposed for the year ended 31 December 2020 (2019- cash dividend of RO 2.029 million, which was approved by shareholders at the AGM).

Corporate Social Responsibility (CSR)

During the year the company kept its spirit of contributing to the community by taking several initiatives to support CSR activities in the areas of Education and Health.

Corporate Governance

Company continued its commitment of adhering to the highest standards of Compliance and Corporate Governance. As elicited more elaborately in the Corporate Governance Report, we assure that the Company has in place policies and procedures that are commensurate to the operations and established internal controls.

Future Outlook

The challenges and the pressures of Market are expected to remain. Although the oil prices have shown some signs of upward movement towards the end of year 2020 the general liquidity is expected to remain tight. The Company is completely aware of these challenges and continuously working towards mitigating them and register sustained growth. With strong leadership and management team and Company is committed to maintaining high standards of business operations and profitability.

Acknowledgement

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

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

On Behalf of the Board of Directors

Rashid bin Saif Al Saadi

Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

Business Environment

The year 2020 was characterized by multiple challenges and the Covid-19 pandemic presented a serious threat to people, businesses and economies across the world. With the already stressed Oil Prices the Pandemic warranted pro-active measures, Taageer Finance had to realign and revisit the operations to address the new challenges and took several initiatives to facilitate customers in the difficult times. Along with various measures and initiatives by the Government, the Central Bank of Oman (CBO) also issued guidelines and stimulus packages to facilitate financial markets to operate in these circumstances.

The liquidity position in the market continues to remain a concern and the Company is exploring all avenues to address the same. The banks continue to adopt a cautious approach in lending and continued to increase interest rates.

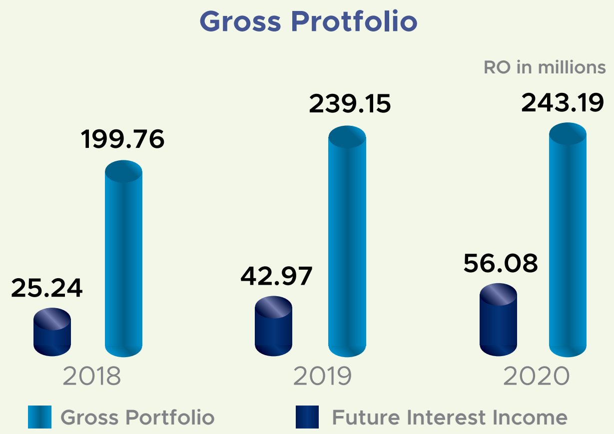
The CBO issued a series of guidelines related to deferment of instalments due from borrowers to enable them overcome their financial challenges arising in the wake of COVID-19. This also had its effect on the collections and cash flows of the financial institutions as they had revisit their projections to this effect.

The Company had also initiated several safety and precautionary measures for customers and employees.

Company Performance

Portfolio:

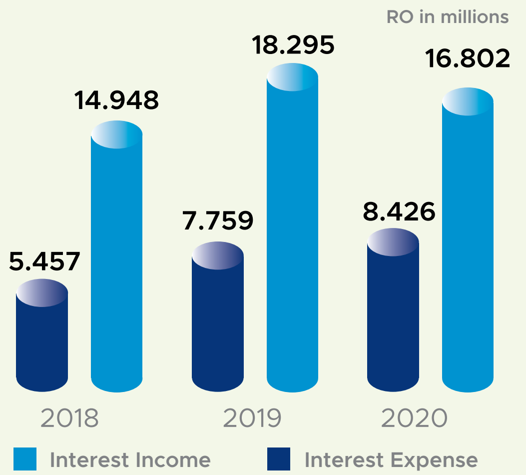
The Gross portfolio of the company stood at RO 243.19 Million as at 31 December 2020 as compared to RO 239.15 in the previous year.



The future interest income stood at RO 56.08 million as at 31 December 2020 as compared to RO 42.97 million for the same period last year registering an increase of 30% which reflects a very strong asset base for sustained revenues.

Net Interest Income

The Interest Income for the year 2020 dropped by 8% as compared to the year 2019. The Net Interest Income for the year 2020 stood at RO 8.4 millions as against RO 10.5 millions in the year 2019 and RO 9.5 millions in the year 2018. Despite increase in funding costs the Company was able to register an increase in Net Interest Income by passing on part of the increase in cost of funds by increasing lending rates on new business through effective marketing strategy.



Profitability

The operating Profit before Provisions and Taxation registered a drop of 37.88% in 2020 as compared to 2019. The provisions made during the year 2020 were RO 2.02 Million as against RO 2.55 Million last year to ensure that the portfolio is sufficiently provided for past overdues. The Profit after Tax stood at RO 2.070 million in 2020 as against RO 3.803 Million in 2019. The Company maintains a prudent and sustained approach to allocate for expected credit losses.

Non-Performing Assets

With the timely intervention of the Central Bank of Oman through circulars on policy measures and stimulus initiatives, significant and focused measures were taken by the management to monitor and control the NPAs.

Management Initiatives

With an effort to expand branch network a new branch in Al Kamil was opened during 2020 and in-principle approval for 2 more branches have been obtained from Central Bank of Oman.

Enhanced Digital Payment Solutions via mobile application (Tamweeli), payment transactions through Point of Sale (POS) machines and automation of Internal Processes were implemented to improve customer response time and facilitate customers during the pandemic and to ensure safety of customers.

Milestones and Awards

The Company bagged the awards for top companies in the mid-cap sector from Oman Economic Review (OER) and Best Finance Company and Best CEO awards from Alam Al-Iktisaad Awards (AIWA) during the year 2020.

Human Resources

The Company is committed to provide employment opportunities to nationals and is continuously working towards enhancing the skill levels. The Omanization ratio as at the end of the year 2020 stands at 88%.

Business Continuity and Disaster Recovery

The Company has put in place a cohesive Disaster Recovery and Business Continuity Plan to ensure that we are prepared for every eventuality. The Plan has also been updated in line with the updated Organization Structure.

Corporate Social Responsibility initiatives

We have always believed the need to cater to social responsibilities and continuous efforts are being made to contribute towards these. Corporate Social Responsibilities towards promoting welfare of the disabled, visually impaired and educational institutions have been given importance.

Future Outlook

With adequately capitalized financials and having experienced multiple business cycles, your Company is well equipped to work towards sustained growth and profits.

With its strong fundamentals and efficient management team, the Company is confident of increasing its market share with utmost customer satisfaction. Availability of policies and procedures coupled with adequate internal control systems facilitates smooth operations. A pro-active and continuous approach to improve and to introduce technological features like digital transaction facilities and social media outreach to customers is expected to add to the strengths.

We are confident that the pandemic effect is slowly fading away and with the arrival of the multiple vaccines there would be a positive and vibrant business environment.

Acknowledgement

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

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

Shahin Mohammed Al Balushi
Chief Executive Officer

KPMG

KPMG LLC
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Sultanate of Oman
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REPORT OF FACTUAL FINDINGS TO THE SHAREHOLDERS OF TAAGEER FINANCE COMPANY SAOG

Agreed upon procedures on Code of Corporate Governance (the "Code") to assist in compliance of requirements prescribed in the Capital Market Authority ("CMA") Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code")

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' Corporate Governance Report of Taageer Finance Company SAOG (the "Company") as at and for the year ended 31 December 2020 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code").

Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarized as follows:

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

2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2020.

   With respect to procedure 2 above, we inquired from and obtain written representation from management and those charged with governance on completeness of information related to non-compliances with the Code for the year ended 31 December 2020.

CR No. 1358131
Tax Card No. 8063052

KPMG

We report our findings below:

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

The above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements respectively and consequently, we do not express any assurance on the Report. Had we performed additional procedures, or had we performed an audit or a review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not be used for any other purpose. The report relates only to the accompanying corporate governance report of the Company to be included in its annual report for the year ended 31 December 2020 and does not extend to any financial statements of the Company, taken as a whole.

15 March 2021

KPMG
KPMG LLC

KPMG
KPMG LLC
P O Box 641, PC 112
Shatti Al Qurum
Sultanate of Oman
CR.No: 1358131

CORPORATE GOVERNANCE

In accordance with the Capital Market Authority (CMA) guidelines, we are pleased to present the Corporate Governance Report for the year ended 31 December 2020. The Auditors, KPMG, have issued a separate Report on the Corporate Governance.

Company's philosophy

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

The Board of Directors

The present Board of Directors were appointed in the Annual General Meeting held on 22 March 2018 for a period of three years. Board of Directors has formed two Committees namely, Audit & Risk Committee and The Executive Nomination & Remuneration Committee.

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

Name of Director / Entity Represented	Position	
Sheikh. Rashid bin Saif Al Saadi Oman Investment Authority Non-Independent & Non-Executive	Chairman	(appointed as Director with effect from 24th April 2019 and Chairman on 30th July 2019)
Sheikh. Khalid Mohamed Al Hamoodah Representing Self Independent & Non-Executive	Vice-Chairman	(re-elected w.e.f 22nd March 2018)
Mr. Fahad Al Haqbani The Arab Investment Company (TAIC), Saudi Arabia Non-Independent & Non-Executive	Director	(re-elected w.e.f 22nd March 2018)
Mr. Saleh bin Nasser Al Riyami Representing Self Independent & Non-Executive	Director	(re-elected w.e.f 22nd March 2018)
Mr. Hussain Mohamed Redha Representing Self Independent & Non-Executive	Director	(re-elected w.e.f 22nd March 2018)

Name of Director / Entity Represented	Position	
Mr. Said Ahmed Safrar Oman Investment & Finance Co (SAOG) OIFC Non-Independent & Non-Executive	Director	(elected w.e.f 22nd March 2018)
Engr. Ahmed Hamed Al Subhi Representing Self Independent & Non-Executive	Director	(Elected as Director on 24th March 2019)
Mrs. Nafiseh Sadat Safavi Iran Foreign Investment Company (IFIC), Iran Non-Independent & Non-Executive	Director	(elected w.e.f 22nd March 2018)
Ms. Rasha Abdulhussain Jaffer Sulaiman Oman Investment Authority Independent & Non-Executive	Director	(elected w.e.f. 10th June 2020)

Board of Directors held 4 meetings during the year. The details of members' participation in the meetings along with their Directorships in other companies in Oman are as follows:

Name of the Director	Position	Board Meeting attended	Last AGM attendance	Directorships in other Companies	Position in other Company
Sheikh. Rashid bin Saif Al Saadi	Chairman	4 28-01-2020 20-05-2020 28-07-2020 27-10-2020	Yes	Takaful Oman Insurance SAOG Al Saffa Foods SAOG Oman Hospitality Co SAOC Al Mouj Muscat SAOC Minerals Dev. Oman SAOC Oman Aviation Academy SAOC Nakheel Oman Dev Co SAOC	Chairman Dy. Chairman Chairman Director Director Chairman Director
Sheikh. Khalid Mohamed Al Hamoodah	Vice Chairman & Director	4 28-01-2020 20-05-2020 28-07-2020 27-10-2020	Yes	Muscat Gases SAOG NBO GCC Fund Sembcorp Salalah Power & Water Company SAOG Oryx Fund	Director Director Director Director

Name of the Director	Position	Board Meeting attended	Last AGM attendance	Directorships in other Companies	Position in other Company
Mr. Fahad Al Haqbani	Director	4 28-01-2020 20-05-2020 28-07-2020 27-10-2020	Yes	---	---
Mr. Saleh bin Nasser Al Riyami	Director	4 28-01-2020 20-05-2020 28-07-2020 27-10-2020	Yes	Oman Ceramic Co. SAOG Al Madina Takaful SAOG	Chairman Director
Mr. Hussain Mohamed Redha	Director	4 28-01-2020 20-05-2020 28-07-2020 27-10-2020	Yes	---	---
Mr. Said Ahmed Safrar	Director	4 28-01-2020 20-05-2020 28-07-2020 27-10-2020	Yes	Sohar International Bank SAOG Fincorp SAOG Dhofar Generating Co SAOG Wasel Exchange SAOC	Director Director Director Chairman
Engr. Ahmed Hamed Al Subhi	Director	4 28-01-2020 20-05-2020 28-07-2020 27-10-2020	Yes	Sohar International Bank SAOG Oman Platform	Director Managing Director
Mrs. Nafiseh Sadat Safavi	Director	4 28-01-2020 20-05-2020 28-07-2020 27-10-2020	Yes	---	---
Rasha Abdulhussain Jaffar Sulaiman	Director	2 28-07-2020 27-10-2020	No	Oman Infrastructure Investment Management SAOC	Director

Audit & Risk Committee

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

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

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

External Quality Assurance Review of the Internal Audit Unit

As per the guidelines issued by CMA in December 2018, the Company should conduct a comprehensive external evaluation of the Internal Audit Unit work at least once in every four years through a specialized third party – other than the Company's External Auditor, provided that the first evaluation is carried out within a period not exceeding one year from the date of implementation of this code. The Internal Audit activity of the Company has got evaluated twice in the year 2011 & 2016 by a specialized third party, prior to the mandatory requirement by CMA.

During 2020, the Board of Directors have appointed Moore Stephens, an independent entity, to carry out evaluation of the Internal Audit Unit. Moore have carried out the evaluation of the Internal Audit Unit and submitted their report. The Audit & Risk Committee has reviewed the evaluation report and submitted to the Board of Directors. Moore Stephens concluded that the Internal Audit activity of the Taageer Finance Company "generally confirms" to the International Professional Practices Framework (IPPF) and local regulations relevant to Internal Audit activity.

Risk Department Functions

i. Setting and reviewing the Company's policies pertaining to risk management, taking into account the Company's business, changes in market conditions and the Company's investment and expansion tendencies and approach.

ii. Setting up an executive program for risk management in the Company and providing training or orientation to the Board and the executive management.

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

Name of the Director	Position	Meetings attended	Date of appointment
Mr. Saleh bin Nasser Al Riyami	Chairman	5	Nominated on 22nd March 2018
Sheikh. Khalid Mohamed Al Hamoodah	Member	5	Nominated on 22nd March 2018
Engr. Ahmed Hamed Al Subhi	Member	4	Nominated on 23rd April 2019 till 28 July 2020
Mr. Said Ahmed Safrar	Member	1	Nominated on 28 July 2020
Ms. Rasha Abdulhussain Jaffer Sulaiman	Member	1	Nominated on 28 July 2020

Executive, Nomination & Remuneration Committee

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

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

Functions of Nomination & Remuneration Committee

- Identify and nominate suitably qualified persons to serve as directors of the Company while adhering to the requirements local rules & regulations.
- Find competent persons to join the Board on temporary basis when a vacancy on the Board arises.
- Search for and nominate competent persons for executive posts as per the request of the Board.
- Prepare recommendations concerning remuneration and sitting fees payable to members of the Board and its sub-committees subject in all cases to the provisions of the Capital Market Authority's Administrative Decisions from time to time.
- Prepare clear, credible and accessible policies to inform the Company's shareholders of the remuneration paid to members of the Board and in relation to executive remuneration.
- Prepare remuneration, allowance, performance based remuneration criteria and bonus policies for the executive management and periodically review the same taking into consideration market conditions and the Company's performance.
- Seek assistance of or consult any other party to enable it to perform its functions if required after obtaining the Board's approval on such assistance or consultation, provided that there is no conflict of interest with the person who shall assist or advise the Committee.

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

Name of the Director	Position	Meetings Attended	Date of Appointment
Sheikh. Rashid bin Saif Al Saadi	Chairman	1	Nominated as Chairman of the Committee on 28 July 2020
Mr. Hussain Mohamed Redha	Chairman	4	Nominated on 22 March 2018. Chairman upto 27 July 2020
Mr. Fahad Al Haqbani	Member	4	Nominated on 22 March 2018
Mr. Said Ahmed Safrar	Member	3	Nominated on 22 March 2018
Engr. Ahmed Hamed Al Subhi	Member	1	Nominated on 28 July 2020
Mrs. Nafiseh Sadat Safavi	Member	4	Nominated on 23 April 2019

Brief Profile of directors

Sheikh. Rashid bin Saif All Saadi

Sheikh Rashid bin Saif Al Saadi, Chairman of the Board, has been a member of the Board of Directors since April 2019, and is a renowned financial and investment banker, business executive, entrepreneur and philanthropist.

Sheikh Rashid holds a B.Sc. in Business

Administration from Rollins College, USA. His career is marked by many significant achievements and milestones; including a twelve year stint with the Diwan of Royal Court, in addition to his involvement in various specialized committees, such as the Omanization committee, the planning and budgeting committee until his appointment as the General Manager of the Arabian Engineering Services (AES) Company.

In addition to his executive responsibilities, Sheikh Rashid is the Chairman of Board of Directors of Takaful Oman SAOG and Deputy Chairman of A'saffa Foods SAOG. He is also a Director on the Boards of, Oman Avaiation Academy SAOC, Almouj Muscat SAOC, Oman Hospitality Co. SAOC and Nakheel Oman Development Co. SAOC.

Sheikh. Khalid Mohamed Ali Al Hamoodah

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

Currently, he is serving as board member in Sembcorp Salalah Power & Water Company SAOG, Muscat GAS SAOG (Oman), Oryx Fund and NBO GCC Fund (Oman).

Mr. Fahad Abdullah Al-Haqbani

Mr. Fahad Al Haqbani, Director of the company has over 24 years of experience in investments and financial services. He holds a Masters' degree in International Marketing from the University of Strathclyde, Glasgow, United Kingdom, and a B.A. in Business Administration from King Saud University, Saudi Arabia. He has been serving The Arab Investment Company, Saudi Arabia for over 18 years. Currently he is the General Manger of Finance & Administration Affairs and Member of Investment Committee and Credit Committee of the Arab Investment Company, Saudi Arabia.

Mr. Al Haqbani has over 25 years of experience in the investment and finance sectors. Currently, he is a Board member ofthe Arab Jordan Investment Bank (AJIB), Jordan, and he is also a Board member of the Arab Jordan Investment Bank (Qatar) LLC, Qatar.

Mr. Saleh Nasser Al Riyami

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

Mr. Hussain Mohamed Redha Ali Al Lawati

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

He has an experience in the Private Equity, Venture capital and Investment Management industry for over 15 years.

Mr. Said Ahmed Safrar

Mr. Said Ahmed Safrar holds a Master in Business Administration (MBA) from the University of Hull in the UK, a Business Management Diploma from King's College Bournemouth in the UK and a Specialized Diploma from the Arab Academy for Banking and Financial Science in Jordan.

Mr. Said has over 24 years of experience in the Banking and Telecommunications' Sector, he is Board member of The Financial Corporation (FINCORP) and Dhofar Generating Company SAOG, Sohar International Bank SAOG and Wasel Exchange SAOC. Currently Mr. Said Safrar holds the position of Chief Executive Officer of Oman Investment & Finance Co. SAOG.

Mrs. Nafiseh Sadat Safavi Mobarhani

Mrs. Nafiseh Sadat Safavi Mobarhani holds a PhD in financial management experience in Investment Analysis and Expertise of projects and plans assessments. She has been working as an investment analyst for 6 years in Investment department of Iran Foreign Investment Company. Presently,she is the manager of Assemblies and Share Affairs Department of Iran Foreign Investment Company.

Engr. Ahmed Hamed Al Subhi

Engr. Ahmed Hamed Al Subhi holds an MBA from the University of Strathclyde, two Post Gradate Diplomas in Engineering and Honours Degree in Electrical Power engineering. Engr. Ahmed Al Subhi is widely recognized individual in the power generation and desalination industry, banking and investment sector. He has been actively involved in developing and implementing of Mega Independent Power and Desalination Project in the region. Ahmed has been involved in many transformations and restructuring of private companies based in his solid operational experience working with many multinational organizations. He is Chairman and member of Board of Directors of few listed Companies in Muscat Securities Market.

Ms. Rasha Abdulhussain Jaffer Sulaiman

Ms. Rasha holds a bachelor's degree in Finance from Sultan Qaboos University and a master's degree in Finance & Investment from University of Edinburgh – United Kingdom.

Ms. Rasha Sulaiman has over 15 years of experience and is currently working with the State General Reserve Fund and has managed portfolio of different vintages, industries and geographies. Ms. Rasha has extensive experience in research of Equity Funds and properties. She is a member of the Board in Oman Infrastructure Investment Management SAOC.

Brief Profile of Management

Mr. Shahin Mohammed al Balushi – Chief Executive Officer

Mr. Shahin Mohammed Al Balushi has worked across various FLCs in Oman. was earlier the Chief Executive Officer of Oman Orix Leasing Company SAOG from 2013 to March-2018 after which he was the Chief Executive Officer of the merged entity of National Finance Company SAOG and Oman Orix Leasing Company SAOG. He also worked with the Ministry of Water Resources and Oman Newspaper. He holds a Bachelor's degree and MBA. He is also an Arab certified Public Accountant.

Mr. Muhammad Kashif Yaqoob – Dy. CEO

Mr. Muhammad Kashif Yaqoob has over 22 years of experience with multinational financial groups including 10 years international experience at C level positions. He has worked as CEO of ORIX Group's Joint Venture in Kazakhstan and has represented ORIX Group as Member on Board of Directors in Joint Venture Companies in Oman and Egypt. Mr Yaqoob has conducted consultancy assignments on behalf of ORIX Group in Russia, Mongolia & Poland etc. He has worked in several positions with ORIX Group in Pakistan and handled areas including Corporate Planning, Operating Lease, New Business Development & International Operations.

Mr Yaqoob carries Master's in Business Administration from IBA Karachi and Bachelor's in Electrical Engineering from N.E.D. University of Engineering & Technology Karachi.

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

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

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

Mr. Mohamed Ali Ibrahim Al Maimani, Asst. General Manager

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

Mr. Mohammed Bader Al Busaidy, Sr. Manager – Training

Mr. Mohammed Bader Al Busaidy is the Sr. Manager – Training of the Company. Mr. Busaidy has over 25 years' experience as Human Resources and Administration Manager. He has received specialized training in Human Resources Management for Banking and Financial Sciences at the Arab Academy. Mr. Busaidy has been associated with the Company since January 2002

Mr. N.V.H. Sastry, Financial Controller

Mr. N.V.H. Sastry is the Financial Controller of the company and is a Member of the Institute of Chartered Accountants of India and B.Sc. (Hons.) in Science from Osmania University, Hyderabad, India. Has more than 25 years of post-qualification experience of which 15 years has been in the leasing industry and the rest in the fields of IT, Investments, Real

Estate and Manufacturing sectors. Has varied experience in Managerial Capacity spanning areas like Finance, IT, Strategic planning and Marketing & Business Development.

Remuneration Matters

The Board of Directors has recommended Director's remuneration of RO 150,000 for the year 2020 (2019 – RO 27,000) in line with Articles 129-133 of the Ministerial Decision 27/2021 issuing the Executive Regulations for Public Joint Stock Companies, Article 197 of the Commercial Companies Law of 2019 and as per the requirements of Capital Market Authority. The Board was paid sitting fees as per details given herein under as approved in the last AGM held on 10 June 2020.

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

The Company held 4 Board meetings during the year 2020, and RO 35,000 (2019 - RO, 58,000) has been paid towards Directors' sitting fees.

During the year 2020, 5 Audit & Risk Committee meetings were held and RO 11,800 (2019 – RO 12,000) was paid towards Audit & Risk Committee sitting fees.

During the year 2020, 4 Executive, Nomination & Remuneration Committee meetings were held and RO 11,600 (2019 – RO 15,000) was paid towards Executive, Nomination & Remuneration Committee sitting fees.

During the year 2020, RO 657,125 (2019 – RO 564,234) was paid as salary and related benefits to the six senior most officers of the company. Employment contracts with these officers are in accordance with the labour laws of the Sultanate of Oman.

Process of Nomination of the Directors

The company follows the provisions of the Commercial Companies Law and the guidelines from the Central Bank of Oman in respect of nomination of the members of the Board of Directors.

Evaluation of Board of Director

As per the new code of Corporate Governance for Public Listed Companies issued by the Capital Market Authority in 2015, the performance of the Board of Directors needs to be reviewed impartially and independently by a third party appointed by the Annual General Meeting in accordance with a benchmark and standards set by the Board or the General Meeting once during the term of Board of Directors. The Shareholders' in the Annual General Meeting held on March 22, 2018 have appointed OCGS, an independent entity, to evaluate the performance of the Board of Directors. The next review will be carried out during the tenure of the new Board of Directors between March 2021 to March 2024.

Means of Communication with the Shareholders

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

Market Price Data

High/Low price and index

The shares of the company are listed on the Muscat Securities Market. Details of market price data during 2020 are as follows:

Month	Market Price (RO)		Volume Traded	Index	
	High	Low		MSM	Sector
Jan-2020	0.105	0.102	55,729	4,079	6,518
Feb-2020	0.108	0.105	397,144	4,131	6,519
Mar-2020	0.108	0.098	123,302	3,448	5,443
Apr-2020	0.108	0.098	-	3,539	5,569
May-2020	0.098	0.098	174	3,545	5,577
Jun-2020	0.098	0.090	107,509	3,516	5,586
Jul-2020	0.093	0.090	493,048	3,568	5,706
Aug-2020	0.090	0.088	213,438	3,772	6,126
Sep-2020	0.090	0.089	20,554	3,615	5,833
Oct-2020	0.090	0.085	30,800	3,558	5,622
Nov-2020	0.090	0.085	175,000	3,644	5,709
Dec-2020	0.087	0.083	324,114	3,659	5,651

Distribution of shares

Name of the shareholders (holding more than 5%)	Percentage (%)	No. of shares
Oman Investment Authority	33.63	85,287,298
The Arab Investment Co. SAA	18.79	47,637,994
Iran Foreign Investment Co.	12.49	31,685,320
Diwan of Royal Palace- Pension Fund	7.73	19,593,024
Oman Investment & Finance Co. SAOG	6.15	15,599,154

Statutory Auditors

The shareholders of the Company appointed KPMG as its auditors for 2020. KPMG LLC in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 180 people, amongst whom are six partners and six directors, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. It operates in 146 countries and territories and have 227,000 people working in member firms around the world. KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms.

Audit Fees

During the year 2020, an amount of RO 24,000 has been paid to the statutory auditors or is due to them. An amount of RO 1,700 was paid towards Taxation related services.

Non-Compliance

The Company has complied with all regulatory requirements except for few instances during last three years. An amount of RO 20,000 was imposed as penalty by the Central Bank of Oman (CBO) during 2019 for certain non-compliances. During the year 2018, RO 18,090 was paid to Muscat Municipality pursuant to Court Order towards outstanding rent and overdue charges for parking spaces. During the year 2020, RO 300 was paid towards non-compliance of administrative decision during the restrictions imposed for COVID-19 precautions. The Company has taken necessary corrective actions to ensure compliance in future.

Corporate Social Responsibility

Taageer is committed to shoulder its financial responsibility in social sphere. During the financial year 2020, Taageer has contributed sums aggregating to RO 2,400 against an amount of RO. 30,000 approved at AGM on 10th June 2020 to associations engaged in promoting welfare of the Disabled, Elderly Friends, Blind, Diabetic and Educational Institutions.

Acknowledgement

The Board of Directors acknowledges confirmation of:

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

Chairman, Audit & Risk Committee

KPMG

KPMG LLC
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P O Box 641, PC 112
Sultanate of Oman
Tel. +968 24 749600, www.kpmg.com/om

Independent Auditors' Report

To the Shareholders of Taageer Finance Company SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Taageer Finance Company SAOG ("the Company") set out on pages 8 to 56, which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants *International* Code of Ethics for Professional Accountants *(including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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Key Audit Matters *(continued)*

Description	How our audit addressed the key audit matter
Expected credit loss allowance against investment in finance leases, working capital finance and factoring receivables As at 31 December 2020, the gross investment in finance leases, working capital finance and factoring receivables of the Company were OMR 187.105 million against which an expected credit loss ("ECL") allowance of OMR 16.951 million was maintained. We considered this as a key audit matter, as the determination of ECL involves significant management judgement and this has a material impact on the financial statements of the Company. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty about the economic outlook in particular and increased the levels of judgement needed to determine the ECL. The key areas of judgement include: 1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. The Company has applied additional judgements to identify and estimate the likelihood of borrowers that might have experienced SICR that resulted in deferrals of payments to certain counterparties. The deferrals of payments were not deemed to have triggered SICR by themselves.	▪ We obtained understanding of management's assessment of impairment of investment in finance leases, working capital finance and factoring receivables including the Company's internal rating model, impairment allowance policy and the ECL modelling methodology including the enhancements made in light of the COVID-19 pandemic; ▪ We compared the Company's ECL allowance policy and ECL estimation with the requirements of IFRS 9; ▪ We assessed the design and implementation, and tested the operating effectiveness of the key controls (including IT general and application controls) over: • the IT systems and applications underpinning the ECL model; • the modelling process, including governance over the monitoring of the model including approval of key assumptions and management overlays; • the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures; and • the integrity of data inputs into the ECL model.

KPMG

Key Audit Matters *(continued)*

<table>
<tr><th>Description</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Expected credit loss allowance against investment in finance leases, working capital finance and factoring receivables *(continued)*

2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages.

3. The need to apply management overlay using expert credit judgement to reflect all relevant risk factors that might not be captured by the ECL model.

Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2020.

</td><td>

- For a sample of customers, we assessed:
  - the staging as identified by management; and
  - management's computations for ECL.
- We tested the appropriateness of the Company's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the Company's staging categorisation including customers in vulnerable sectors affected by the COVID-19 pandemic;
- We assessed the qualitative factors which were considered by the Company to recognise any management overlays, in case of data or model limitations. Where such management overlays were applied, we assessed those management overlays and the governance process around them;
- We assessed the reasonableness of the underlying assumptions used by the Company in the ECL model including forward looking assumptions in cognisance of the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic;
- We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020;

</td></tr>
</table>

KPMG

Key Audit Matters *(continued)*

Description	How our audit addressed the key audit matter
Expected credit loss allowance against investment in finance leases, working capital finance and factoring receivables *(continued)* Refer to the summary of significant accounting policy note 2.8(vi) for the impairment of financial assets; note 2.24(a) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Company; note 5 which contains the disclosure of impairment against investment in finance leases, working capital finance and factoring receivables; and note 3.1(b) for details of credit quality analysis and key assumptions and factors considered in determination of ECL.	▪ Where relevant, we involved our financial risk management specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in management overlays; and ▪ We assessed the adequacy of disclosures in the financial statements.

Other Matter

The financial statements of the Company for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 12 March 2020.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon:

- Board of Directors' Report;
- Management Discussion and Analysis Report; and
- Corporate Governance Report.

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Other Information *(continued)*

Our opinion on the financial statements does not cover the other information and we do 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 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, 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Company's financial reporting process.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Auditors' Responsibilities for the Audit of the Financial Statements *(continued)*

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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Auditors' Responsibilities for the Audit of the Financial Statements *(continued)*

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

Report on Other Legal and Regulatory Requirements

Further, we report that financial statements of the Company as at and for the year ended 31 December 2020, comply, in all material respects, with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 2019.

15 March 2021

KPMG
Ravikanth Petluri

KPMG
KPMG LLC
P O Box 641, PC 112
Shatti Al Qurum
Sultanate of Oman
CR.No: 1358131

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	Note	2020 RO'000	2019 RO'000
ASSETS			
Cash and bank balances	4	**2,412**	3,882
Net investment in finance leases, working capital finance and factoring receivables	5	**170,154**	182,169
Other receivables and prepayments	6	**441**	456
Financial assets at fair value through other comprehensive income	7	**-**	-
Deferred tax asset – net	18(f)	**88**	1,016
Vehicles, equipment and right-of-use assets	8	**771**	922
Statutory deposit	9	**250**	250
Total assets		**174,116**	188,695
LIABILITIES AND EQUITY			
LIABILITIES			
Creditors, accruals and other liabilities	10	**2,480**	2,038
Bank overdrafts and short-term loans	11	**65,496**	62,520
Unsecured non-convertible bonds	12(a)	**-**	6,183
Tax payable	18(b)	**377**	1,605
Corporate and security deposits	13	**8,645**	10,251
Long-term loans	12	**55,314**	64,335
Total liabilities		**132,312**	146,932
EQUITY			
Share capital	14(a)	**25,359**	25,359
Legal reserve	14(b)	**5,141**	4,934
IFRS 9 impairment reserve	14(c)	**2,222**	-
Fair value reserve	7	**(441)**	(441)
Retained earnings		**9,523**	11,911
Total equity		**41,804**	41,763
Total equity and liabilities		**174,116**	188,695
Customers liabilities under guarantees	22	**-**	368
Net assets per share (baizas)	15	**165**	165

The financial statements including notes and other explanatory information on pages 43 to 107 were approved and authorised for issue by the Board of Directors on 15 March 2021 and were signed on their behalf by:

Chairman	**Director**	**Chief Executive Officer**

Independent auditors' report - pages 32 to 38.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	**2020 RO'000**	2019 RO'000
Income			
Finance income		**16,802**	18,295
Interest expense		**(8,426)**	(7,759)
Net finance income		**8,376**	10,536
Other operating income	16	**1,035**	1,563
		9,411	12,099
Expenses			
Operating expenses	17	**(4,506)**	(4,523)
Depreciation	8	**(419)**	(354)
Impairment in net investment in finance leases, working capital finance and factoring receivables	5(c)	**(2,021)**	(2,553)
		(6,946)	(7,430)
Profit before taxation		**2,465**	4,669
Taxation	18(a)	**(395)**	(866)
Profit for the year		**2,070**	3,803
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		**-**	-
Total comprehensive income for the year		**2,070**	3,803
Basic and diluted earnings per share (baizas)	19	**8.16**	15.00

The notes and other explanatory information on pages 43 to 107 form an integral part of these financial statements.

Independent auditor's report - pages 32 to 38.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital RO'000	Legal reserve RO'000	Fair value reserve RO'000	IFRS 9 impairment reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2020	**25,359**	**4,934**	**(441)**	**-**	**11,911**	**41,763**
Total comprehensive income for the year:						
Profit for the year	**-**	**-**	**-**	**-**	**2,070**	**2,070**
Transactions with owners:						
Dividend [note 14(d)]	**-**	**-**	**-**	**-**	**(2,029)**	**(2,029)**
Other transactions within equity:						
Transfer to IFRS 9 impairment reserve [note 5(c)]	**-**	**-**	**-**	**2,222**	**(2,222)**	**-**
Transfer to legal reserve [note 14(b)]	**-**	**207**	**-**	**-**	**(207)**	**-**
Total other transactions and transactions with owners	**-**	**207**	**-**	**2,222**	**(4,458)**	**(2,029)**
At 31 December 2020	**25,359**	**5,141**	**(441)**	**2,222**	**9,523**	**41,804**
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(d)]	-	-	-	-	(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

The notes and other explanatory information on pages 43 to 107 form an integral part of these financial statements.

Independent auditor's report - pages 32 to 38.

STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RO'000	2019 RO'000
Operating activities			
Profit before taxation		**2,465**	4,669
Adjustments for:			
Interest expense		**8,426**	7,759
Impairment for net investment in finance leases, working capital finance and factoring receivables		**2,021**	2,553
Depreciation	8	**419**	354
Profit on sale of assets		**-**	(1)
Provision for end of service benefits	10.1	**71**	67
		13,402	15,401
Working capital changes:			
Net investment in finance leases, working capital finance and factoring receivables		**9,994**	(21,345)
Other receivables and prepayments		**15**	(24)
Creditors, accruals and other liabilities		**401**	(1,662)
Cash from / (used in) operations before payment of tax, interest and employees' end of service benefits		**23,812**	(7,630)
Income tax paid	18(d)	**(695)**	(771)
Employees' end of service benefits paid		**(80)**	(15)
Interest paid		**(8,376)**	(7,738)
Net cash from / (used in) operating activities		**14,661**	(16,154)
Investing activities			
Purchase of vehicles and equipment	8	**(268)**	(376)
Proceeds from sale of vehicles and equipment		**-**	16
Net cash used in investing activities		**(268)**	(360)
Financing activities			
Dividend paid		**(2,029)**	(2,536)
Long term loans received		**27,200**	55,915
Long term loans paid		**(36,221)**	(41,130)
Short term loans received		**25,631**	35,100
Short term loans paid		**(23,300)**	(31,750)
Corporate and security deposits received		**3,212**	5,978
Corporate and security deposits paid		**(4,818)**	(2,758)
Unsecured non-convertible bonds		**(6,183)**	57
Net cash (paid) / generated from financing activities		**(16,508)**	18,876
Net change in cash and cash equivalents		**(2,115)**	2,362
Cash and cash equivalents at the beginning of the year		**3,882**	1,520
Cash and cash equivalents at the end of the year		**1,767**	3,882
Cash and cash equivalents comprise of:			
Cash and bank balances	4	**2,412**	3,882
Bank overdrafts	11	**(645)**	-
		1,767	3,882

The notes and other explanatory information on pages 43 to 107 form an integral part of these financial statements.

Independent auditor's report - pages 32 to 38.

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

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 (2019 - five branches) and has employed 163 employees as at 31 December 2020 (2019 - 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), applicable requirements of the Commercial Companies Law of 2019, Capital Market Authority (CMA) of the Sultanate of Oman disclosure requirements 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

A number of new or amended standards became applicable for the current reporting period. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

- Definition of Material – Amendments to IAS 1 and IAS 8;
- Definition of a Business – Amendments to IFRS 3;
- Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39; and
- Amendments to references to conceptual framework in IFRS standards.

(d) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted any of the forthcoming new or amended standards in preparing these financial statements and these standards are not expected to impact the Company's financial statements.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- COVID-19-Related Rent Concessions (Amendment to IFRS 16)
- IFRS 17 Insurance Contracts;
- Reference to Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current – Amendments to IAS 1; and
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

2.2 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.

2.3 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

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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 statement of profit or loss 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.

2.4 Interest expense

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

2.5 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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'.

2.6 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

2.7 Leases

(a) Company as a lessee

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.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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.

2.8 Financial assets and liabilities

(i) 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.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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.

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(ii) Classification and subsequent measurement

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading.

The Company measures cash and bank balances, investment in finance leases, working capital finance and factoring receivables and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest ('SPPI')

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Financial assets or financial liabilities held for trading

The Company classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Debt instruments at FVOCI

The Company applies the category of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 (Financial Instruments - Presentation) and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Company's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount / premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in profit or loss as other operating income when the right to the payment has been established.

Financial liabilities

Under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The amount presented separately in OCI related to changes in own credit risk of a designated financial liability at FVTPL are not recycled to profit or loss, even when the liability is derecognised and the amounts are paid. Instead, own credit gains and losses should be reclassified to retained earnings within equity upon derecognition of the relevant liability.

(iii) Reclassifications

The Company does not reclassify its financial assets subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2020.

(iv) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss for the year.

(v) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the original financial asset is derecognised and a new financial asset is recognised at fair value. If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of income.

(vi) 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.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured at 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

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for the year ended 31 December 2020 (continued)

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

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

2.9 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.

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 exceed the gross carrying amount of the loan, the ECL is recognised as a provision.

2.10 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or cash generating exceeds its recoverable amount. Recoverable amount is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

2.11 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.

2.12 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.

2.13 Borrowings

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

2.14 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

2.15 Employees' end of service benefits and leave entitlements

Contributions to a defined contribution retirement plan, for Omani employees in accordance with Oman Social Insurance Scheme, are recognised as an expense in the statement of comprehensive income as incurred. The Company's obligation, in respect of non-Omani terminal benefits, under defined benefits retirement plan, is the amount of future benefits that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate used reflects current market assessments of the time value of money.

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.

2.16 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.

2.17 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

2.18 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.

2.19 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; and
- 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).

(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; and
- by the number of ordinary shares outstanding at 31 December (note 15).

2.20 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 Sultanate of Oman and is recognised as an expense in the Company's statement of profit or loss and other comprehensive income in the year of approval from shareholders in the AGM.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

The Annual General Meeting shall approve the remuneration and sitting fees in line with Articles 129-133 of the Ministerial Decision 27/2021 issuing the Executive Regulations for Public Joint Stock Companies, as per the requirements of Capital Market Authority. The total director's remuneration in one year shall not exceed RO 300,000 (limited to RO 150,000 if the current financial year net profit is lesser as compared to the previous financial year net profit).

2.21 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.

2.22 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.

2.23 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.

2.24 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.

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

NOTES TO THE AUDITED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

In order to assess the impairment, the Company follows guidelines issued by 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.

(b) Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. 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 Company and the relevant tax authority.

(c) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

The Company also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(d) Going concern

The Company's management has made an assessment of its ability to continue as going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3 Financial risk management

3.1 Financial risk factors

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

The Company aims to follow a strategy of minimising risk in order to reduce its vulnerability to adverse market conditions and this is reflected in the risk appetite set by the Board of Directors and implemented by management. The low assumption of risk is mainly achieved through diversification of the asset portfolio.

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

(a) Market risk

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

(i) Price risk

Price risk is a risk that fair value of financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk). As at 31December 2020, a 5% change in the fair value of FVOCI asset will result in Nil (2019 - NIL) change in the Company's fair value reserve and net equity of the Company.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(ii) Foreign currency risk

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

(iii) Interest rate risk

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

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

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

The Company uses sensitivity analysis to analyse variable cost of borrowings. Management estimates that the Company's variable interest costs are sensitive to the extent that a change in 50 basis points in the average funding cost would change interest cost on borrowings by RO 0.647 million (2019 - 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(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:

Stage 1

Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset

Stage 3

There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

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.

- 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.

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 accounts' (above RO 250,000) 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.

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;

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

- 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; and
- 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. 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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 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.

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 AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (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
2020		RO' 000	RO' 000
(1)	(2)	(3)	(4)
Standard	Stage 1	95,136	-
	Stage 2	59,163	-
	Stage 3	324	-
Subtotal		154,623	-
Special Mention	Stage 1	-	-
	Stage 2	-	-
	Stage 3	4,688	229
Subtotal		4,688	229
Substandard	Stage 1	-	-
	Stage 2	-	-
	Stage 3	3,267	774
Subtotal		3,267	774
Doubtful	Stage 1	-	-
	Stage 2	-	-
	Stage 3	5,581	2,230
Subtotal		5,581	2,230
Loss	Stage 1	-	-
	Stage 2	-	-
	Stage 3	18,946	14,015
Subtotal		18,946	14,015
Sub Total	Stage 1	95,136	-
	Stage 2	59,163	-
	Stage 3	32,806	17,248
	Total	187,105	17,248
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	987	-
	Stage 2	-	-
	Stage 3	-	-
	Total	987	-
Total		188,092	17,248

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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
RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
(5)	(6) = (4)-(5)+(10)	(7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
1,020	(1,020)	95,136	94,116	-	-
5,988	(5,988)	59,163	53,175	-	-
63	(63)	324	261	-	-
7,071	(7,071)	154,623	147,552	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,122	(787)	4,353	3,566	-	106
1,122	(787)	4,353	3,566	-	106
-	-	-	-	-	-
-	-	-	-	-	-
808	137	2,322	2,459	-	171
808	137	2,322	2,459	-	171
-	-	-	-	-	-
-	-	-	-	-	-
1,874	786	2,921	3,707	-	430
1,874	786	2,921	3,707	-	430
-	-	-	-	-	-
-	-	-	-	-	-
6,076	10,095	2,775	12,870	-	2,156
6,076	10,095	2,775	12,870	-	2,156
1,020	(1,020)	95,136	94,116	-	-
5,988	(5,988)	59,163	53,175	-	-
9,943	10,168	12,695	22,863	-	2,863
16,951	3,160	166,994	170,154	-	2,863
546	(546)	-	441	-	-
-	-	-	-	-	-
-	-	-	-	-	-
546	(546)	-	441	-	-
17,497	2,614	-	170,595	-	2,863

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO Norms
2019		RO' 000	RO' 000
(1)	(2)	(3)	(4)
	Stage 1	139,735	-
Standard	Stage 2	28,966	-
	Stage 3	282	-
Subtotal		168,983	-
	Stage 1	207	10
Special Mention	Stage 2	148	7
	Stage 3	6,514	316
Subtotal		6,869	333
	Stage 1	23	6
Substandard	Stage 2	-	-
	Stage 3	4,522	1,095
Subtotal		4,545	1,101
	Stage 1	-	-
Doubtful	Stage 2	8	2
	Stage 3	2,434	980
Subtotal		2,442	982
	Stage 1	7	3
Loss	Stage 2	45	38
	Stage 3	13,289	9,639
Subtotal		13,341	9,680
	Stage 1	139,972	19
Sub Total	Stage 2	29,167	47
	Stage 3	27,041	12,030
	Total	196,180	12,096
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	923	-
	Stage 2	-	-
	Stage 3	-	-
	Total	923	-
Total		197,103	12,096

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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
RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
(5)	(6) = (4)-(5)+(10)	(7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
1,855	(1,855)	139,735	137,880	-	-
3,836	(3,836)	28,966	25,130	-	-
93	(93)	282	189	-	-
5,784	(5,784)	168,983	163,199	-	-
4	7	196	203	-	1
6	1	141	142	-	-
1,794	(1,276)	5,996	4,720	-	202
1,804	(1,268)	6,333	5,065	-	203
1	5	17	22	-	-
-	-	-	-	-	-
1,197	42	3,283	3,325	-	144
1,198	47	3,300	3,347	-	144
-	-	-	-	-	-
-	2	6	8	-	-
658	479	1,297	1,776	-	157
658	481	1,303	1,784	-	157
1	2	4	6	-	-
1	37	7	44	-	-
4,565	6,485	2,239	8,724	-	1,411
4,567	6,524	2,250	8,774	-	1,411
1,861	(1,841)	139,952	138,111	-	1
3,843	(3,796)	29,120	25,324	-	-
8,307	5,637	13,097	18,734	-	1,914
14,011	-	182,169	182,169	-	1,915
481	(481)	-	442	-	-
-	-	-	-	-	-
-	-	-	-	-	-
481	(481)	-	442	-	-
14,492	(481)	-	182,611	-	1,915

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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

Asset Classification as per CBO Norms 2020	**Asset Classification as per IFRS 9**	**Gross Carrying Amount RO' 000**	**Provision required as per CBO Norms RO' 000**
(1)	**(2)**	**(3)**	**(4)**
	Stage 1	**-**	**-**
Classified as performing	**Stage 2**	**18,432**	**-**
	Stage 3	**-**	**-**
Subtotal	**Total**	**18,432**	**-**
	Stage 1	**-**	**-**
Classified as non-performing	**Stage 2**	**-**	**-**
	Stage 3	**1,714**	**633**
Sub total	**Total**	**1,714**	**633**
Total	**Stage 1**	**-**	**-**
	Stage 2	**18,432**	**-**
	Stage 3	**1,714**	**633**
	Total	**20,146**	**633**
Asset Classification as per CBO Norms 2019			
	Stage 1	99	-
Classified as performing	Stage 2	1,118	-
	Stage 3	-	-
Subtotal	Total	1,217	-
	Stage 1	-	-
Classified as non-performing	Stage 2	-	-
	Stage 3	325	122
Sub total	Total	325	122
Total	Stage 1	99	-
	Stage 2	1,118	-
	Stage 3	325	122
	Total	1,542	122

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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 RO' 000
(5)	**(6) = (4)-(5)+(10)**	**(7)=(3)-(4)-(10)**	**(8) = (3)-(5)**	**(9)**	**(10)**
-	**-**	**-**	**-**	**-**	**-**
2,465	**(2,465)**	**-**	**15,967**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**
2,465	**(2,465)**	**-**	**15,967**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**
428	**270**	**1,016**	**1,286**	**-**	**65**
2,893	**270**	**1,016**	**1,286**	**-**	**65**
-	**-**	**-**	**-**	**-**	**-**
2,465	**(2,465)**	**18,432**	**15,967**	**-**	**-**
428	**270**	**1,016**	**1,286**	**-**	**65**
2,893	**(2,195)**	**19,448**	**17,253**	**-**	**65**
2	(2)	99	97	-	-
92	(92)	1,118	1,026	-	-
-	-	-	-	-	-
94	(94)	1,217	1,123	-	-
-	-	-	-	-	-
-	-	-	-	-	-
73	56	196	252	-	7
73	56	196	252	-	7
2	(2)	99	97	-	-
92	(92)	1,118	1,026	-	-
73	56	196	252	-	7
167	(38)	1,413	1,375	-	7

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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.

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

	As per CBO Norms	**As per IFRS 9***	**Difference**
2020	**RO'000**	**RO'000**	**RO'000**
Provisions required as per CBO norms / Allowance for ECL	**20,111**	**17,497**	**2,614**

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

* RO 545,520 (2019 – RO 480,941) relates to allowance for ECL on other assets and financial guarantees.

NPL ratio 2020	**As per CBO Norms**	**As per IFRS 9**	**Difference**
Gross NPL ratio (percentage)	**17.36%**	**17.53%**	**0.17%**
Net NPL ratio (percentage)	**7.41%**	**12.91%**	**5.50%**

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%

Based on the assessment undertaken to date, the existing provision for impairment as at 31 December 2020 is equal to the total estimated provision requirement as per IFRS 9. However, this will be reassessed periodically and appropriately dealt with as per requirements.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(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.

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

	2020	2019
	RO'000	RO'000
Exposure		
Bank balances	**2,358**	3,806
Statutory deposit	**250**	250
Net investment in finance leases, Working capital finance and factoring receivables	**170,154**	182,169
Other receivables	**124**	68
Total exposure	**172,886**	186,293

The above table represents a worst-case scenario of credit risk exposure of the Company at 31 December 2020 and 2019 without taking into account any collateral held. The Company holds enforceable collaterals against net investments in finance lease to mitigate credit risk exposure.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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 the Company deals with reputed banks in the Sultanate of Oman and no ECL has been recorded, being not material. Security deposit is held with Central Bank 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	**2020**	2019
	RO'000	RO'000
Gross investment in finance leases:		
Individual	**83,960**	95,246
Corporate	**147,747**	129,931
	231,707	225,177
Working capital finance and factoring receivables:		
Corporate	**11,480**	13,968

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

	2020	2019
	RO 000	RO 000
Gross investment in finance leases:		
Manufacturing	**40,334**	34,070
Trading and construction	**45,001**	34,622
Services	**62,412**	61,239
Individual	**83,960**	95,246
	231,707	225,177

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

	2020 RO 000	2019 RO 000
Working capital finance and factoring receivables:		
Manufacturing	**1,134**	1,468
Trading and construction	**8,320**	10,449
Services	**2,026**	2,051
	11,480	13,968

Geographical concentration

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

(iv) Outbreak of Coronavirus (COVID-19)

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

(v) Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc (as per CBO circular no. BSD/CB/2020/001). These measures have been extended until 31 March 2021.

(vi) Impact of COVID-19 on the Company

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, will not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment will be needed to measure ECLs at this time. When it is not possible to reflect such information in the models, post-model overlays or adjustments should be considered. This is also broadly consistent with guidelines issued by other regulators including those issued by the CBO.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

Additional IFRS 9 guidelines issued by the CBO stipulates:

- CBO's measures related to deferment of loan repayment by a borrower may not on its own trigger the counting of 30 DPD or more backstop used to determine SICR or the 90 days past due backstop used to determine default. However, FLC's shall continue to assess the obligor's likelihood of payment of amount due after the deferment period, and in case of SICR or credit impairment and if the same is not of a temporary nature, accordingly, fairly recognize such risk.

- The deferment of repayment by borrowers may indicate short term liquidity or cash flow problems and hence the deferment of loan repayment may not be a sole deciding factor for SICR or impairment until and unless FLC's might have experienced other supportable evidence on having deterioration in the credit quality of the obligor.

- Similarly, any covenant breach having particular relevance to Covid-19 e.g. delay in submission of audited financial accounts or any other breach, may be considered differently than normal breaches related to consistent borrower specific risk factors leading to borrowers default. This sort of breach may not necessarily and automatically trigger SICR resulting in moving accounts to Stage-2.

- FLC's must develop estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration should be given both to the effects of Covid-19 coupled with oil prices & significant CBO policy measures being undertaken.

- Nevertheless, any changes made to ECL estimate the impact of Covid-19 distress will be subject to very high levels of uncertainty as reasonable and supportable forward-looking information may not be currently available to substantiate those changes. As such, the macro-economic forecasts applied by the FLC's in their IFRS 9/ECL models couldn't be recalibrated upfront with pre-mature effects of Covid-19 and CBO support measures, besides the individual and collective LGD's may get impacted due to Covid-19 effect on market prices of collateral and guarantees. However, FLC's are expected to use post model adjustments and management overlays by applying multiple macroeconomic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis as prudence.

The IFRS 9 Steering Committee of the Company is primarily responsible for overseeing the Company's adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors. SME customers are evaluated based on the stability of the business owner and business.

NOTES TO THE AUDITED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

Company's retail portfolio largely comprises of nationals employed in government sector. Retail lending to private sector employees which forms a small proportion of Company's total retail portfolio is expected to witness some impact in the short to medium term due to the pandemic and hence could lead to potential credit issues. Company is fully committed to help its customers through this turbulent period as directed by the CBO. Company continued to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic. Company continually reviews its precautionary and administrative measures in response to changes on the ground.

(vii) Impact on SICR

The exercise of the deferment option by a customer, in its own, is not considered by the Company as triggering SICR. However, as part of the Company's credit evaluation process especially given the current economic situation due to after effects of lock down, the Company obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

The Company's model has been constructed and calibrated using historical trends, asset correlations and forward- looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Company operates could not be reliably modelled for the time being. As a consequence, the existing model may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Company expects that post-model adjustments will be applied for the foreseeable future.

Post-model adjustments (PMAs) and management overlays made in estimating the reported ECL as at 31 December 2020 are set out as follows:

As on the reporting date the collective provision held by the Company through management overlays amounts to RO 2.152 million, 12.69% of total impairment based on latest available PD term structure and macro-economic forecasts. This is in addition to the existing ECL provision considered to mitigate any unforeseen impacts in the portfolio. The Company will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

NOTES TO THE AUDITED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

PMAs and management overlays

Given the ever-evolving nature of the current health and economic crisis, the Company's management is of the view that the forward looking macro-economic data and the PD term structures published by the economists and rating agencies during 2020 is yet to be reasonably reflect the impact of the economic disruption caused by Covid-19 and also to fully factor in the financial intervention by the relevant state authorities.

Hence, based on regulatory and IASB's guidance, as a measure of prudence, wherever necessary, the Company has applied model adjustments in terms of scenario weights and management judgment overlays for few distressed accounts as well as considered COVID-19 impact for job loss customers in retail portfolio, while computing its ECL with an intention to collectively cover the:

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

In determining above, the management has considered following assumptions:

- Oil price used by the Company around $42.7/bbl (31 December 2019: $64/bbl)

Scenario weightage of 33%, 33% and 33% for Optimistic, Baseline and Pessimistic scenarios (31 December 2019: 6%, 46% and 48%) has been considered in estimating ECL.

The following table shows a comparison of the Company's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2020 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

Sensitivity of impairment estimates for stage 1 and 2 exposure excluding overlays:

	As at 31 December 2020			
Sensitivity of impairment estimates	**ECL**	**Impact on ECL**	**ECL**	**Impact on ECL**
	RO 000's	**RO 000's**	**RO 000's**	**RO 000's**
		Stage 1		**Stage 2**
Baseline	**1,666**	**646**	**3,167**	**(670)**
Pessimistic	**4,435**	**3,415**	**7,930**	**4,093**
Optimistic	**530**	**(490)**	**1,029**	**(2,808)**

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(viii) Accounting for modification loss

In case of Corporate and retail customers, the Company plan to add the simple interest accrued during the deferral period (DP) to the principal outstanding and either extend the original maturity period of the loan or increase the instalments at the end of the DP. The Company has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not resulted in derecognition of financial assets. Further, the impact of day one modification loss was not considered material for the period.

For job loss retail customers, where as per CBO circular DTM/KBT/2020/1351 dated 25 March 2020, the waiver the interest during deferment period and simply extending the instalment for DP was mandated, the Company has calculated modification loss of RO 337,996 and recorded as an adjustment to interest income in the profit and loss.

(ix) Impact on the Capital Adequacy

Although above measures are not exhaustive and may not fully counteract the impact of COVID-19 in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Company continues to monitor and respond to all liquidity and funding requirements. As at the reporting date the liquidity, funding and capital position of the Company remains strong and is well placed to absorb the impact of the current disruption. Liquidity management as disclosed in note 25(b), is largely dependent on availability of usual funding through committed lines form local banks in Oman.

(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.

Funds management is 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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**
	RO'000	**RO'000**	**RO'000**	**RO'000**
At 1 January 2020	**64,335**	**62,520**	**10,251**	**6,183**
Additions during the year	**27,200**	**25,631**	**3,212**	**-**
Repayments during the year	**(36,221)**	**(23,300)**	**(4,818)**	**(6,183)**
At 31 December 2020	**55,314**	**64,851**	**8,645**	**-**
Change in cash flows	**(9,021)**	**2,331**	**(1,606)**	**(6,183)**

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
	RO'000	RO'000	RO'000	RO'000
At 1 January 2019	49,550	59,170	7,031	6,126
Additions during the period	55,915	35,100	5,978	57
Repayments during the period	(41,130)	(31,750)	(2,758)	-
At 31 December 2019	64,335	62,520	10,251	6,183
Change in cash flows	14,785	3,350	3,220	57

(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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

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; and

(v) Develop business ethics and standards

3.2 Fair values estimation

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

3.3 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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 of net-worth as stipulated by the Capital Adequacy norms specified by the Central Bank of Oman. The gearing ratio for the year is as follows:

	2020	2019
Total liabilities (RO'000)	**132,312**	146,932
Net equity (RO'000)	**41,804**	41,763
Total liabilities to net equity ratio (times)	**3.17**	3.52

4 Cash and cash equivalents

	2020	2019
	RO'000	RO'000
Current accounts	**2,358**	3,806
Cash in hand	**54**	76
Cash and bank balances	**2,412**	3,882
Bank Overdraft	**(645)**	-
Cash and cash equivalents	**1,767**	3,882

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

	2020	2019
	RO'000	RO'000
Gross investment in finance lease	**231,707**	225,177
Working capital finance and factoring receivables	**11,480**	13,968
Unearned finance income (refer 'b')	**(56,082)**	(42,965)
	187,105	196,180
Allowance for expected credit losses (ECL)	**(16,951)**	(14,011)
	170,154	182,169

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(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	2 year to 3 years RO'000	>3 years RO'000	Total RO'000
At 31 December 2020				
Gross investment in lease, working capital finance and factoring receivables	**68,716**	**82,467**	**92,004**	**243,187**
Present value of gross investment in finance lease, working capital finance and factoring receivables	**52,901**	**60,927**	**73,277**	**187,105**
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

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

	2020 RO'000	2019 RO'000
At 1 January	**42,965**	25,241
Additions during the year	**29,919**	36,019
Recognised during the year	**(16,802)**	(18,295)
At 31 December	**56,082**	42,965

(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 year was as follows:

	CBO Provisions and Reserve Interest RO'000	Allowance for ECL* RO'000	Difference RO'000
At 1 January 2020	**14,011**	**14,492**	**(481)**
At 31 December 2020	20,111	17,497	2,614

* RO 545,520 (2019 – RO 480,941) relates to allowance for ECL on other assets and financial guarantees.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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.

At 31 December 2020, 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 32.806 million (2019 - RO 27.041 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 2020, impairment losses would have increased by RO 6.692 million (2019 - RO 7.449 million) had benefit of collateral not been obtained by the Company for the impaired leases. Out of the total CBO provision of RO 20.111 million (2019 - RO 14.011 million) for impairment, RO 17.248 million (2019 - RO 12.096 million) is against specific impaired finance leases and RO 2.863 million (2019 - RO 1.915 million) is unrecognised contractual income. The Company's receivables which are past due but not impaired is 18% of net investment in finance leases (December 2019- 23%).

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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (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	
	2020	2019	**2020**	2019	**2020**	2019
	RO'000	RO'000	**RO'000**	RO'000	**RO'000**	RO'000
At 1 January	**14,011**	11,142	**481**	324	**14,492**	11,466
Charge for the year	**1,914**	2,442	**107**	111	**2,021**	2,553
Reserve interest	**948**	427	**-**	-	**948**	427
Write back during the year	**78**	-	**(42)**	46	**36**	46
At 31 December	**16,951**	14,011	**546**	481	**17,497**	14,492

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

	2020	2019
	RO'000	RO'000
Portfolio under stages		
Stage 1	**95,136**	139,972
Stage 2	**59,163**	29,167
Stage 3	**32,806**	27,041
Gross investment in finance leases, working capital finance and factoring receivables	**187,105**	196,180
Allowance for ECL	**(16,951)**	(14,011)
Net investment in finance leases, working capital finance and factoring receivables	**170,154**	182,169

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

	2020	2019
	RO'000	RO'000
Stage 1	**1,020**	1,861
Stage 2	**5,988**	3,843
Stage 3	**9,943**	8,307
	16,951	14,011

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(f) 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 20,145,559 at 31 December 2020 (2019 - RO 1,541,813). Out of those, 38 contracts (2019 – 17 contracts) amounting to RO 1,713,742 (2019 - RO 325,368) are classified as at 31 December 2020.

6 Other receivables and prepayments

	2020 RO'000	2019 RO'000
Prepaid expenses	**299**	336
Unamortised dealer commission	**18**	46
Other receivables	**670**	549
	987	931
Allowance for ECL against other receivables [refer 6(a)]	**(546)**	(475)
	441	456

(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

	2020 RO'000	2019 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

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 2020	**164**	**1,385**	**698**	**572**	**2,819**
Recognition of right-of-use assets	**-**	**-**	**-**	**26**	**26**
Additions	**13**	**177**	**52**	**-**	**242**
At 31 December 2020	**177**	**1,562**	**750**	**598**	**3,087**
Accumulated depreciation					
At 1 January 2020	**59**	**1,184**	**483**	**171**	**1,897**
Charge for the year	**57**	**103**	**70**	**189**	**419**
At 31 December 2020	**116**	**1,287**	**553**	**360**	**2,316**
Net book value					
At 31 December 2020	**61**	**275**	**197**	**238**	**771**

	Motor Vehicles RO'000	Office and computer equipment RO'000	Furniture and fixtures RO'000	Right-of-use assets RO'000	otal 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

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

9 Statutory deposit

The Company is required to maintain a deposit of RO 250,000 (2019 - 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% (2019 - 1.5%) per annum.

10 Creditors, accruals and other liabilities

	2020 RO'000	2019 RO'000
Leased assets payable	**947**	576
Accruals for expenses	**904**	728
Lease liability	**177**	332
Provision for employees' end of service benefits (note 10.1)	**207**	216
Other liabilities	**245**	180
Allowance for ECL against counter guarantees given to banks (refer 22)	**-**	6
	2,480	2,038

10.1 Provision for employees' end of service benefits

	2020 RO'000	2019 RO'000
At 1 January	**216**	164
Charge for the year (note 17.1)	**71**	67
Paid during the year	**(80)**	(15)
At 31 December	**207**	216

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 2020 and 2019, 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% (2019 - 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% (2019 - 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 70.55 million (2019

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

- RO 63.18 million), which are entirely secured against pari-passu charges over net investment in finance leases, working capital finance and factoring receivables. 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:

	2020 RO'000	2019 RO'000
Bank overdrafts	**645**	-
Short-term loans	**64,851**	62,520
	65,496	62,520

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 70.169 million (2019 - RO 98.94 million). These loans are secured by a pari-passu charge over the total assets of the Company. The maturity dates of the aforementioned facilities range from January 2021 to October 2024.

Total outstanding long term loans at 31 December 2020 amount to RO 55.314 million (2019 – RO 64.335 million) out of which current portion of long-term loans as at 31 December 2020 amounted to RO 27.801 million (2019 - RO 38.100 million).

There is no default or breach of terms and conditions of the loan agreements during the period ended 31 December 2020 and 2019.

At 31 December 2020, the company had undrawn bank facilities amounting to RO 13.4 million (2019 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 was 5% (2019 – 5%) per annum. The bonds have been matured during the year.

	2020 RO'000	2019 RO'000
Bonds	**-**	6,183
	-	6,183

NOTES TO THE AUDITED FINANCIAL STATEMENTS
for the year ended 31 December 2020 (continued)

13 Corporate and security deposits

	2020 RO'000	2019 RO'000
Corporate deposits	**8,533**	9,760
Security deposits	**112**	491
	8,645	10,251

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 6.50% per annum (2019 - 2.75% to 6.25% per annum). Maturity profile is included under note 25.

14 Shareholders' equity

(a) Share capital

The authorised share capital comprises 300,000,000 ordinary shares (2019 - 300,000,000 ordinary shares). The Company's issued and fully paid-up share capital comprises of 253,590,000 ordinary shares (2019 - 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:

	2020		2019	
	Shareholding %	**Shares held**	Shareholding %	Shares held
Oman Investment Authority	**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

(b) Legal reserve

In accordance with article 132 of the Commercial Companies Law of 2019, annual appropriations of 10% amounting to RO 207 thousand (2019 – RO 380 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.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(c) Impairment reserve

IFRS9 impairment reserve net of tax is created by appropriation from retained earnings when the calculated provision as per CBO norms is higher than IFRS9 ECL.

As of December 2020, the Company created an impairment reserve of RO 2.222 million net of tax for the difference that existed on 31 December 2020 (31 December 2019: Nil).

(d) Dividend

Dividend is not accounted for until it has been approved at the Annual General Meeting (AGM). The Board of Directors has proposed nil dividend for the year ended 31 December 2020 (2019- cash dividend of RO 2.029 million, which was approved by shareholders at the AGM).

The financial statements for the year ended 31 December 2020 do reflect dividend payment as an appropriation of retained earnings for the dividend relating to 2019 declared in 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:

	2020	2019
Net equity (RO'000)	**41,804**	41,763
Number of ordinary shares outstanding at 31 December (Numbers 000)	**253,590**	253,590
Net assets per share (baizas)	**165**	165

16 Other operating income

	2020 RO'000	2019 RO'000
Insurance charges	**261**	737
Services charges	**580**	743
Foreclosure charges	**186**	79
Interest on deposit	**8**	4
	1,035	1,563

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

17 Operating expenses

	2020 RO'000	2019 RO'000
Staff costs (note 17.1)	**3,467**	3,479
Professional fees and subscriptions	**195**	220
Communication costs	**206**	194
Travelling expenses	**196**	176
Directors' remuneration and sitting fees (note 21)	**58**	114
Advertising and sales promotion	**42**	61
IT maintenance and license fees	**56**	52
Printing and stationery expenses	**51**	50
Occupancy costs	**33**	43
Annual general meeting expenses	**14**	10
Insurance	**19**	13
Donations	**2**	11
Collection and recovery expenses	**-**	1
Other office expenses	**167**	99
	4,506	4,523

17.1 Components of staff costs

	2020 RO'000	2019 RO'000
Wages and salaries	**3,008**	2,985
Other benefits	**199**	247
Contribution to defined contribution plan	**189**	180
Charge for end of service benefits (note 10.1)	**71**	67
	3,467	3,479

18 Taxation

(a) Components of tax expense:

	2020 RO'000	2019 RO'000
Current tax		
- current year	**304**	1,150
- prior years	**(837)**	(65)
Deferred tax		
- current year	**73**	(448)
- prior years	**855**	229
	395	866

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(b) Breakup of tax liability is as follows:

	2020 RO'000	2019 RO'000
Current liability		
- Current year	**304**	1,150
- Prior years	**73**	455
	377	1,605

(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% (2019 - 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:

	2020 RO'000	2019 RO'000
Accounting profit before taxation	**2,465**	4,669
Income tax expense computed at applicable tax rates	**370**	700
Non-deductible expenses	**1**	2
Effect of prior period	**18**	164
Others	**6**	-
	395	866

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

	2020 RO'000	2019 RO'000
At 1 January	**1,605**	1,291
Current tax for the year	**304**	1,150
Current tax – prior years	**(837)**	(65)
Paid during the year	**(695)**	(771)
At 31 December	**377**	1,605

(e) Status of the tax assessments

The tax returns of the Company for the tax years 2019 and 2020 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 2020.

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

(f) Deferred tax asset

Deferred income taxes are calculated on all taxable temporary differences using a principal tax rate of 15% (2019 - 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 2020 RO'000**	**Recognised in the statement of profit or loss and other comprehensive income RO'000**	**31 December 2020 RO'000**
Vehicles and equipment	**9**	**-**	**9**
Impairment allowance on investment in finance leases, working capital finance, factoring receivables and other receivables	**930**	**(930)**	**-**
Impairment of financial assets at fair value through other comprehensive income	**78**	**-**	**78**
Right-of-use assets and lease liabilities	**(1)**	**2**	**1**
Deferred tax asset – net	**1,016**	**(928)**	**88**
Vehicles and equipment	16	(7)	9
Impairment allowance on investment in finance leases, working capital finance, factoring receivables and other receivables	703	227	930
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	797	219	1,016

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.

	2020	2019
Profit for the year (RO'000)	**2,070**	3,803
Weighted average number of shares during the period (Numbers 000)	**253,590**	253,590
Basic and diluted earnings per share (baizas)	**8.16**	15.00

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

20 Related party transactions

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

The Company maintains 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:

	2020 RO'000	2019 RO'000
Transactions with related parties:		
Interest on bank loans and bonds	**1,058**	1,473
Interest on corporate and security deposits	**21**	37
Finance income	**3**	4
Related party balances:		
Bank borrowings and bonds	**13,750**	24,917
Corporate and security deposits	**1,578**	-
Net investment in finance leases	**67**	50

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:

	2020 RO'000	2019 RO'000
Salaries and other benefits to key management personnel	**657**	564
Directors' sitting fees (note 17)	**58**	85
Directors' remuneration (note 17)	**-**	29

22 Contingent liabilities

The Company has given counter guarantee to a commercial bank to the extent is Nil (2019- RO 374,176) in respect of performance bonds, advance payment guarantees, letters of credit, etc. issued by the banks on behalf of the Company's customers.

	2020 RO'000	2019 RO'000
Counter guarantees	-	374
Allowance for ECL (refer note 10)	-	(6)
Net amount	-	368

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 2020 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 2020 is RO 183.696 million (2019: 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.

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:

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

- 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:

	2020 RO'000			2019 RO'000		
	Retail	**Corporate**	**Total**	Retail	Corporate	Total
Income						
Finance income	**6,606**	**10,196**	**16,802**	7,962	10,333	18,295
Interest expense			**(8,426)**			(7,759)
Net income from financing activities			**8,376**			10,536
Other operating income			**1,035**			1,563
Total income			**9,411**			12,099
Expenses						
General and administrative expenses			**(4,506)**			(4,523)
Depreciation			**(419)**			(354)
Allowance for ECL	**(370)**	**(1,651)**	**(2,021)**	(1,133)	(1,420)	(2,553)
Profit before taxation			**2,465**			4,669
Taxation			**(395)**			(866)
Profit for the year			**2,070**			3,803
Assets						
Net investment in finance leases, working capital finance and factoring receivables	**61,274**	**108,880**	**170,154**	71,448	110,721	182,169
Other assets			**3,962**			6,526
Total assets			**174,116**			188,695
Liabilities						
Total liabilities			**132,312**			146,932

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 2020 and 2019:

	0 - 30 days RO'000	31 - 180 days RO'000	181 - 365 days RO'000	1 - 3 years RO'000	Over 3 years RO'000	Non interest rate sensitive RO'000	Total RO'000
31 December 2020							
Financial assets							
Cash and bank balances	-	-	-	-	-	2,412	2,412
Net investment in finance leases, Working capital finance and factoring receivables	16,877	13,631	17,560	55,397	66,689	-	170,154
Other receivables	-	-	-	-	-	124	124
Statutory deposit	-	-	-	-	-	250	250
Total financial assets	16,877	13,631	17,560	55,397	66,689	2,786	172,940
Financial liabilities							
Bank overdrafts and short-term loans	34,296	31,200	-	-	-	-	65,496
Creditors, accruals and other liabilities	-	-	-	-	-	2,273	2,273
Corporate and security deposits	289	75	2,753	5,528	-	-	8,645
Long term loans	3,594	11,777	12,430	17,351	10,162	-	55,314
Total financial liabilities	38,179	43,052	15,183	22,879	10,162	2,273	131,728
Interest rate sensitive gap	(21,302)	(29,421)	2,377	32,518	56,527	513	41,212
Cumulative gap	(21,302)	(50,723)	(48,346)	(15,828)	40,699	41,212	

	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, Working capital finance and factoring receivables	11,603	19,707	22,779	70,457	57,623	-	182,169
Other receivables	-	-	-	-	-	68	68
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	

Net investment in finance leases, working capital finance and factoring receivables carry interest rates ranging between 2.8% to 12% (2019 – 2.8% 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 2020 and 2019 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 2020							
Financial assets							
Cash and bank balances	-	-	-	-	-	2,412	2,412
Net investment in finance leases, Working capital finance and factoring receivables	24,937	19,486	23,206	73,693	84,914	-	226,236
Other receivables	-	-	-	-	-	124	124
Statutory deposit	-	-	-	-	-	250	250
Non-financial assets							
Prepayments	-	-	-	-	-	317	317
Deferred tax	-	-	-	-	-	88	88
Vehicle, equipment and right-of-use assets	-	-	-	-	-	771	771
Total assets	24,937	19,486	23,206	73,693	84,914	3,962	230,198
Equity	-	-	-	-	-	41,804	41,804
Financial liabilities							
Bank overdrafts and short-term loans	34,393	31,475	-	-	-	-	65,868
Creditors, accruals and other liabilities						2,273	2,273
Corporate and security deposits	324	235	2,910	5,728	-	-	9,197
Unsecured non-convertible bonds	-	-	-	-	-	-	-
Long term loans	3,743	12,924	13,277	17,979	10,712	-	58,635
Non-financial liabilities							
Provision for employees' end of service benefits	-	-	-	-	207	-	207
Tax payable	-	377	-	-	-	-	377
Total equity and liabilities	38,460	45,011	16,187	23,707	10,919	44,077	178,361
Liquidity gap	(13,523)	(25,525)	7,019	49,986	73,995	(40,115)	51,837
Cumulative liquidity gap	(13,523)	(39,048)	(32,029)	17,957	91,952	51,837	

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for the year ended 31 December 2020 (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 2019							
Financial assets							
Cash and cash equivalents	-	-	-	-	-	3,882	3,882
Net investment in finance leases, working capital finance and factoring receivables	11,713	24,912	30,429	90,147	67,933	-	225,134
Other receivables	-	-	-	-	-	68	68
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	11,713	24,912	30,429	90,147	67,933	6,526	231,660
Equity							
Share capital and reserves	-	-	-	-	-	41,763	41,763
Financial liabilities							
Bank overdrafts and short-term loans	38,304	24,541	-	-	-	-	62,845
Creditors, accruals and other liabilities	-	-	-	-	-	1,822	1,822
Corporate and security deposits	234	2,024	5,600	2,900	-		10,758
Unsecured non-convertible bonds	-	-	6,303	-	-	-	6,303
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	42,310	46,155	28,632	29,631	870	43,585	191,183
Liquidity gap	(30,597)	(21,243)	1,797	60,516	67,063	(37,059)	40,477
Cumulative liquidity gap	(30,597)	(51,840)	(50,043)	10,473	77,536	40,477	

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 AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

26 Financial instruments by category

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

2020	Financial assets at fair value through other comprehensive income	Amortised cost	Total carrying amount
	RO'000	RO'000	RO'000
Financial assets			
Cash and cash equivalents	-	2,412	2,412
Net investment in finance leases, working capital finance and factoring receivables	-	170,154	170,154
Other receivables	-	124	124
Statutory deposit	-	250	250
Total financial assets	-	172,940	172,940

	Total carrying amounts
	RO'000
Financial liabilities (all at amortised cost)	
Bank overdrafts and short-term loans	65,496
Creditors, accruals and other liabilities (excluding end of service benefits)	2,273
Unsecured non-convertible bonds	-
Corporate and security deposits	8,645
Long term loans	55,314
Total financial liabilities	131,728

NOTES TO THE AUDITED FINANCIAL STATEMENTS

for the year ended 31 December 2020 (continued)

2019	Financial assets at fair value through other comprehensive income	Amortised cost	Total carrying amount
	RO'000	RO'000	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 amount
	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