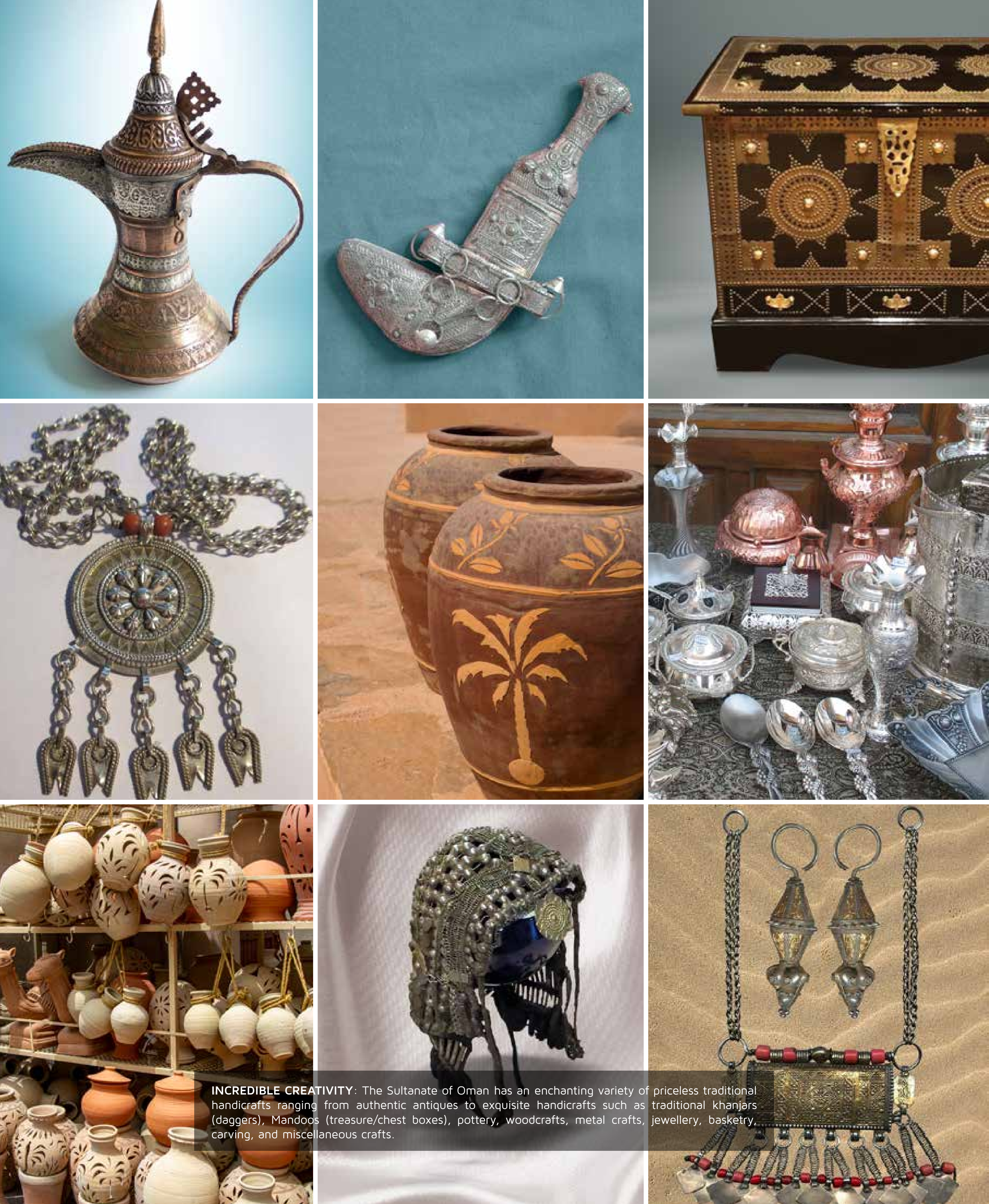
ANNUAL REPORT 2019

HIS MAJESTY SULTAN QABOOS BIN SAID

HIS MAJESTY SULTAN HAITHAM BIN TARIK



INCREDIBLE CREATIVITY: The Sultanate of Oman has an enchanting variety of priceless traditional handicrafts ranging from authentic antiques to exquisite handicrafts such as traditional khanjars (daggers), Mandoos (treasure/chest boxes), pottery, woodcrafts, metal crafts, jewellery, basketry, carving, and miscellaneous crafts.

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MAGNIFICENT ANTIQUE CRAFT: A beautiful antique dagger khanjar. Khanjar is the hallmark of Omani heritage, identity, manhood and pride.

OMANI HANDICRAFTS
GLORIOUS HERITAGE OF A RICH CIVILIZATION

The character of a civilization is shaped by two vital ingredients such as heritage and culture, and in the prolonged process of social and economic transformation, how a civilization organizes itself internally, and how it effectively connects to others — countries, people, and institutions — matter the most.

Cultural identity is interpreted as 'national identity' for social development, nation-building and international cooperation. Anthropological definitions state that "culture encompasses the totality of human ideas and artifacts in a particular society at a particular time".

As various cultures evolve, they take aspects from the past, while absorbing new ideas from the present, often being influenced by the cultural and trade links with the outside world.

The foundation stones of modern Oman's success are its rich heritage and culture that are passed down from generation to generation. The Sultanate is a thriving society, and with its glorious heritage, the nation is moving with the times to meet the aspirations of its people.

In the challenging voyage of mankind, predominantly, arts and crafts collectively play a pivotal role. Unequivocally, there is a correlation between civilization and traditional handicrafts.

Handicrafts are the living examples of a civilization's heritage and culture. The role of handicrafts in preserving traditional values is pertinent to all civilizations – individual and institutional — in spite of their varied characteristics. In a larger perspective, handicrafts not only play the prime role in nation-building but also cultivate patriotism. Oman's rich heritage and history are made up of incredible stories of heroism, courage, wisdom, seafaring, and loyalty to the homeland.

Oman has an enchanting variety of traditional handicrafts — exemplifying the incredible artistic quality of the country's crafts — ranging from priceless authentic antiques to exquisite hand-made crafts such as daggers, treasure boxes, pottery, embroidery, woodcrafts, metal crafts, hand woven crafts, jewellery, basketry, leatherwork, carving, weaving, textiles, and several costume accessories and miscellaneous crafts. The traditional Omani khanjar is not only a cultural pride, but also a symbol of courage.

Individuals create civilizations, and civilizations build nations, communities and institutions. By and large, heritage and culture safeguard human values and help the mankind maintain sound links among various societies. Oman's heritage and cultural values embody the nation's common commitment to peace, openness, and justice. All societies are founded on certain values and principles, based on their history and traditions, and are protected by well-thought out policies crafted by predecessors. Archeological discoveries reveal that humans settled in Oman during the Stone Age, more than 10,000 years ago. Omani handicrafts, forts, dhows, aromatic cuisine, frankincense are very popular across the world. The Babylonians and Assyrians settled in Oman for several years to control the trade route that linked Asia to the shores of Mediterranean Sea. For centuries, Oman has been an example of human development in the region as the roots of Omani culture and its rich heritage lie deep in the history, and evidences reveal that Oman's link with the world is spread across the East, China, India, Mesopotamia, Mediterranean, Nile Valley and North Africa.

Craft production has been an ancient and widespread activity in Oman for centuries. For instance, bronze, brass and copper and silver were used in Oman centuries ago. Although clay pots were fragile, they were produced and used widely for transporting commodities in trade across the world.

Omani museums showcase a large number of antique handicrafts, visualizing the unique skills of Omanis as regional leaders in arts and culture and intellectual resources. Development of small-scale industries, including handicraft production, has been one of modern Oman's important economic development strategies, and the establishment of Public Authority for Craft Industries has opened a new chapter in transforming the sector.

The fruit of an authentic crafting is a masterpiece, and the art of crafting involves utmost dedication, painstaking, enduring tolerance and harmony. The knowledge of crafting has been handed on from one generation to another, with Omani artisans today working in much the same way as their predecessors centuries ago.

Tourism is said to be one of the fastest growing industries in the world, and tourists are important contributors to the handicraft market development, and of late, concepts such as ethnic tourism and eco-tourism have invited widespread attention among tourists. In tourism, a country's unique heritage and culture, including craftwork are being received as important attractions, drastically increasing foreign exchange earnings. Literally, a corporate entity is one of the fruits of a healthy civilization tree. Building a successful corporate entity, based on a viable business model, is a Herculean task, more or less similar to the task of creating a masterpiece.

Handicraft industry has a significant role in the economic, financial, social, and cultural spheres of a country – to individuals and their households and to the nation altogether. The industry has a positive impact on the society so as financial institutions as they create job opportunities (generations after generations), promote tourism, and contribute to the economic activity, preserving traditions and harmony.

Looking ahead, traditional values are guiding principles to decide how a corporate entity organizes itself internally, and how it connects externally. The rapid pace of technological advancement has created unprecedented opportunities for the financial sector products and services. The Sultanate has been bristling with the creative energy of its financial sector for five decades.

At Al Omaniya Financial Services SAOG (AOFS), technology and tradition stand shoulder-to-shoulder. An authentic Corporate Craft is the foundation of an enterprise as it affects every aspect of a business, and the realistic approach at AOFS delivers real value. Driven by the trust that customers have in its brand value, Al Omaniya has been maintaining its business philosophy (which is based on a vibrant traditional corporate culture) for more than two decades. Sound financial institutions emerge from sound traditional values and culture, and Al Omaniya, having a commendable track record of preserving its goodwill pledges to advocate the glorious heritage of Oman.

AOFS is creating a better value for all its stakeholders. Crafting a sound and productive corporate structure, coupled with a lively corporate culture is as much as crafting a masterpiece. The 'AOFS Corporate Craft and Culture' advocate sound corporate governance and stringent checks and balances throughout the organisation. AOFS, with a total asset-base of more than RO240 million, has been offering a comprehensive range of financial products and services, for more than two decades, and over the years, the company has established a strong market presence, and enhanced the goodwill. The AOFS brand value, developed from the country's glorious heritage and rich civilization has been imbuing the company with the synergy it needs, since its inception in 1997.

Antique beads

Omani souqs showcase an array of wonderful handicrafts.

PHILOSOPHY

OUR GUIDING PHILOSOPHY IS A SYSTEM OF FUNDAMENTAL BELIEFS AND PRINCIPLES OF OUR BUSINESS. OUR STATEMENT OF THE CORPORATE PHILOSOPHY ATTEMPTS TO CAPTURE THE ESSENCE.

WE BELIEVE

We believe the purpose of our business is to create superior value for all our Stakeholders with Increased profitability that reflects the positive aspects of effective corporate governance and evolve a culture that brings out the best in our employees, through empowerment and self-realization.

WHAT WE WANT TO BE

Al Omaniya Financial Services' mission is to be the best financial services company through ethics and excellence today and tomorrow.

WHAT WE WANT TO DO

It is the sum of our decision about what we will do to achieve our mission in the environment we operate. Our strategy is to position the company as a specialized financial services company, which will serve select markets and optimize the productivity of our capital base.

The principal components of our strategy are...

SPECIALIZED FINANCIAL SERVICES COMPANY

The provision of financial services to consumers and corporate customers is the principal set of skills, which combine our activities. The core competency of our people is to put to test into areas where our skills are compatible with the requirements for success.

WHICH WILL SERVE SELECT MARKETS

The ability to identify potential markets where a sustainable advantage can be created is another concept in our strategy. When selecting markets, we choose the ones where we believe we have or can establish sustainable competitive advantages based upon a dedication to customer service, responsive decision-making and product innovation.

OPTIMIZE THE PRODUCTIVITY OF OUR CAPITAL BASE

Balancing growth between business as that requires us to carry assets and business that produce additional revenues and profits without adding to asset size. This produces a large stream of revenue and profits from a given capital base than a strategy focused principally on asset growth.

The environment in which we operate changes constantly. Customer needs and expectations evolve in new directions. We review our strategies and remain flexible to prosper and grow in the years to come.




Oman is renowned for its traditional silverware as silver not only visualizes purity but its talismanic value brings good fortune.

CHAIRMAN'S REPORT 2019

KHALID SAID AL WAHAIBI
Chairman

"THE COMPANY IS RESILIENT AND CAUTIOUSLY OPTIMISTIC OF POSTING SATISFACTORY PERFORMANCE IN 2020. THE COMPANY IS WELL AWARE OF THE CURRENT ECONOMIC SCENARIO AND HAS INITIATED PROACTIVE MITIGATING MEASURES. THE COMPANY IS FUNDAMENTALLY STRONG WITH SOLID NET WORTH, CLEAN LOAN BOOK, LOWEST NON-PERFORMING LOANS AND HIGH NON PERFORMING ASSET COVERAGE. AS SUCH THE COMPANY HAS THE ABILITY TO OPERATE COMPETITIVELY AND POST SATISFACTORY PERFORMANCE IN THE COMING YEARS."

On behalf of the Board of Directors, it is my pleasure to present our 22nd Annual Report, for the year ended 31st December 2019.

Economy:

As we usher in the year 2020, global growth is projected to rise from an estimated 2.9 percent in 2019 to 3.3 percent in 2020 and 3.4 percent for 2021. Oman economy is expected to accelerate to a growth of 3.7% in 2020 driven largely by the rise in natural gas output as production from new fields comes on stream. The potential boost of the government's diversification efforts would continue to facilitate an increase in non-hydrocarbon growth to about 4% annually in the medium-term. Inflation is expected to increase to almost 2% in 2020, and to further accelerate to nearly 4% in 2021, reflecting the possible introduction of VAT.

Financial Highlights

In the year 2019, the company has achieved net operating income of RO 11.61 million as compared to RO 12.14 Million in the previous year. The profit before tax for the year 2019 is RO 4.035 Million as compared to RO 4.738 Million. The company's net installment finance receivables stood at RO153.7 Million as of 31 December 2019, reduction of 18.98% and the total assets size is RO 244 million.

The company has made a charge of RO 3.176 Million towards estimated credit loss for the year 2019. The estimated credit loss as per IFRS 9 requirements stands at RO 6.925 Million. The non-performing assets coverage including the specific reserve for non-performing assets stands at 183.44%. The company continues to maintain its No 1 position for the NPL coverage in the industry.

The company has followed a conservative and pragmatic policy in writing new businesses, the focus has been on maintaining the asset quality and keeping the non-performing loans under control. We believe that this approach is prudent and will allow the company to dynamically build asset size when market emerges into its growth mode.

Proposed Dividend

It is the intention of your company to continue the sustainable and progressive dividend policy that the company has been following since inception. Your directors have proposed a dividend of 14.5% for the year 2019, after considering the CBO guidelines, comprising 10.5% cash and 4% unsecured compulsorily convertible bonus stock bonds with a face value of RO. 0.100, subsequently the CBO has approved a dividend of 11.05% for the year 2019, comprising 7.05% cash and 4% unsecured compulsorily convertible bonus stock bonds with a face value of RO. 0.100 (subject to the approval at the AGM), thus maintaining its track record of paying consistent dividends without interruption since inception. This takes the cumulative dividend paid to shareholders to 450.33% since inception. The unsecured compulsorily convertible bonds will be paid from Company's share premium account.

Capital Enhancement

During the year the company has converted 12,283,776 fully compulsorily convertible bonds of RO 0.100 each amounting to RO 1,228,378/- into equity by issuing 6,310,699 shares of RO 0.100 each. With these additional equity, the company's equity capital stands at RO 29,193,517/-. In addition, the company has proposed to issue compulsorily convertible bonus stock bonds of 4% for the financial year 2019. The company is well capitalised, and the capital adequacy stands at a healthy 28.66%.

Concerns

Diminishing margins due to competition for quality assets from banks, Islamic windows of banks and finance companies, liquidity crunch in the market, increasing trend in the cost of funds, expected reduction in both private and public spending, delayed payments on the existing contracts and expected delinquencies due to reduced cash flow at the individual and corporate borrower's level coupled with liquidation of major contracting companies are causes of concern. The impact of the low credit off take and the slow economic momentum could impact the business volumes and top line growth on the one hand and the increase in delinquencies may impact the net margins and result in dilution of the NPA coverage.

Corporate Social Responsibility

The Company continues to contribute for social causes as part of its Corporate Social Responsibilities. In line with the corporate objectives during the current year under CSR, the company has contributed towards National Day Celebrations, Sponsorship to sports events and cultural events.

Prognosis

We continue to foresee an extremely challenging year ahead. The company is resilient and cautiously optimistic of posting satisfactory performance in 2020. The company is well aware of the current economic scenario and has initiated proactive mitigating measures. The company is fundamentally strong with solid net worth, clean loan book, lowest Non-Performing Loans and high Non performing asset coverage. As such the company has the ability to operate competitively and post satisfactory performance in the coming years.

We assure the shareholders that, as outlined in the Report on Corporate Governance and the Management Discussion and Analysis Report by the Chief Executive Officer, the company has adequate internal control systems and processes and has good governance systems in all the areas of management and has the ability to continue as a going concern. The Board also understands its responsibility for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law 1974, as amended and the Capital Market Authority of the Sultanate of Oman.

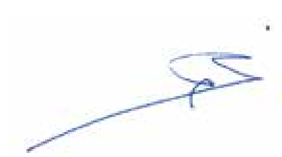
Board of Directors' Appraisal:

As per the regulatory requirement, the company has conducted the Board of Directors' appraisal for the year 2018, to cover the remaining tenure of the Board, through an independent consultant M/s. Crowe Mak Ghazali LLC and the report is satisfactory.

Acknowledgement

On behalf of the company and the Board of Directors, I would like to express my deep gratitude and appreciation to His Majesty Sultan Haitham bin Tarik to continue to lead the Sultanate on the path of development and prosperity.

We are also grateful to the Central Bank of Oman, Capital Market Authority and other regulatory authorities for their guidance and support. We also thank our shareholders, bankers, dealers and customers for their continued trust, confidence and support. Last, but not the least, we acknowledge the dedication and commitment of the management and staff of the company.



KHALID SAID AL WAHAIBI
Chairman

Oman's amazing silver jewellery and crafts – necklaces, bangles, earrings, anklets, rings, perfume bottles, jewelry boxes, coffee pots, frankincense burners and several other products – symbolize the country's rich and glorious heritage.

BOARD OF DIRECTORS

Khalid Said Salim Al Wahaibi
Chairman of Board

Shk. Khalid Mustahil Ahmed Al Mashani
Deputy Chairman, Chairman of Executive Nomination & Remuneration Committee

Brig. Gen. Saif Salim Saif Al Harthi
Director

Zaki Hassan Ihsan Al Naseeb
Director & Chairman of Audit Committee

K.K. Abdul Razak
Director

Ibrahim Said Salim Al Wahaibi
Director

Sheikh Tariq Salim Mustahil Al Mashani
Director

Shikar Bipin Dharamsey Nensey
Director

Ketan Dinkarrai Vasa
Director

Building a better working world

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Sultanate of Oman

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

REPORT OF FACTUAL FINDING

TO THE SHAREHOLDERS OF AL OMANIYA FINANCIAL SERVICES SAOG

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 Al Omaniya Financial Services SAOG (the "Company") as at and for the year ended 31 December 2019 and its application of the corporate governance practices in accordance with amendments to CMA's 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 summarised as follows:

1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the 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 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 2019. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report 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 to be used for any other purpose. This report relates only to the accompanying corporate governance report of Al Omaniya Financial Services SAOG to be included in its annual report for the year ended 31 December 2019 and does not extend to any financial statements of Al Omaniya Financial Services SAOG, taken as a whole.

Ernst & Young LLC

Muscat
18 March 2020

إرنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ ، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

REPORT ON CORPORATE GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2019

COMPANY PHILOSOPHY ON CORPORATE GOVERNANCE

The Company has adopted the Corporate Governance framework introduced vide CBO circular No. BM/932 dated 4 February, 2002, CMA regulations vide CMA circular No. E/4/2015 issued in July, 2015 and updated in December, 2016. Good corporate governance is about commitment to ethical business standards, culture and ensuring that adequate standards exist to promote such behaviour through out the organisation by a pro-active governance culture that has consistently adopted industry leading standards.

Al Omaniya Financial Services SAOG Board upholds the highest ethical, moral and legal standards and emphasis quality, transparency, integrity and honesty in all its dealing with strategic and business partners which are critical to our ongoing success and enhancement of all stakeholders' value on a long term.

BOARD OF DIRECTORS

Al Omaniya Financial Services SAOG Board has an active, well-informed and independent Board consisting of nine non-executive directors, out of which eight are independent directors and one is non-independent. The members were elected to the Board at the Annual General Meeting held on 21 March 2018, for a term of 3 years ending March 2021. The Board members are qualified and experienced professionals and businessmen, who provide effective guidance, motivation and broad based frame work, which enable the organisation to perform at high standards.

The main responsibilities of the Board are to oversee the corporate strategies, review performance, ensure regulatory compliance and safeguard the interest of the shareholders.

BRIEF PROFILE OF THE BOARD OF DIRECTORS

Mr. Khalid Said Al Wahaibi, Chairman has a Degree in Business Administration, International Business and majored in Arts & Political Science from Pacific Lutheran University, Tacoma, Washington, USA. He has an experience of more than 24 years in several senior management positions in a large conglomerate business group. He is also on the board of National Gas Company SAOG and Bank Dhofar SAOG.

Sheikh Khalid Mustahil Ahmed Al-Mashani, Deputy Chairman is a Graduate in Economics and Masters in International Boundaries. He is also on the board of joint stock companies including the Chairman of Bank Muscat and Dhofar International Development & Investment Co.SAOG.

Mr. K.K. Abdul Razak, Director has Masters Degree in Economics and has an experience of more than three decades in senior management position. He is Group Chief Financial Officer of Muscat (Overseas) Group.

Mr. Ibrahim Said Salim Al Wahaibi, Director has a Bachelor's Degree in Business Administration from the University of San Diego, California, USA. He has experience of more than 22 years in various senior positions in a large business conglomerate.

Mr. Zaki Hassan Al Naseeb, Director is a graduate of business administration from the United Kingdom. He has 26 years of experience in finance and Project Management. He also holds directorship in three other Joint Stock companies viz., Computer Stationery Industry SAOG, Oman Education & Training Investment SAOG and Global Financial Investments Holding SAOG. He is also a Board member of Gulf Plastic Industries Co SAOC.

Mr.Shikar Bipin Dharamsey Nensey, Director holds Bachelor of Science in Finance & Economics, Babson College (School of Business) and MBA from Indian Institute of Management, Calcutta, India. He is the Managing Director of Al Maha Financial Services LLC.

Mr. Ketan Dinkarrai Vasa, Director is a Chartered Accountant as well as CFA Charter Holder. He has more than 21 years of experience in the field of Investments and Finance. Currently, he is working as Senior Analyst at Civil Service Employees Pension Fund, in its Monitoring and Reporting Section.

Sheikh Tariq Salim Mustahil Al Mashani, Director is a businessman having family business. He is a director of Bank Dhofar SAOG and Dhofar University. He is the Chairman of Muscat International Bitumen LLC and Rayaha Al Etifaq LLC.

Brig. Gen. Saif Salim Saif Al Harthi, Director has a Bachelor Degree in Military Science from Kansas, USA. He has undergone National Defence Course with Association of Nasser Military Academy, Egypt and Certified Public Accountant's course with Arab Society of Certified Public Account in the year 1999 from Jordan. He has a PhD in Human Resources Development from Cairo, Egypt. In addition he has attended several courses in Finance and Accounts management. He has undergone higher diploma in Management Accounting from Abington, Oxford. He has 34 years' experience in the field of Audit, Finance, Human Resources and Accounting and was in the Board of NBFCs for twelve years. He is at present with Ministry of Defence as Defence Resource Advisor. He is also on the board of joint stock companies including Bank Muscat SAOG.

BRIEF PROFILE OF TOP MANAGEMENT WITH EXECUTIVE POWERS

Mr. Aftab Patel, Chief Executive Officer, is a Commerce Graduate and a Chartered Accountant with an experience of over 3 decades in several areas of banking, financial services, investments and general management. He was associated with reputable organization like A. F. Ferguson & Co. and 'Associated Cement Co.' in India. In Oman he was involved with a major corporate group. He also holds directorship in a joint stock company.

Mr. Salim Al Awadi, Deputy Chief Executive Officer, is a management accountant, holds a degree in Business Administration and Post Graduate Diploma in Accountancy and MBA from University of Lincoln, with a rich experience of over 30 years in banking, oil and gas. He is also on the board of various companies.

Mrs. Latha Ramakrishan, General Manager – Risk Management is an Economic Graduate and a Cost Accountant and has been working with the company for the last 23 years. She has worked in various capacities including Chief Accountant, Finance Manager and also co-ordinated in the company's new IT system.

Mr. Braik Al Amri, General Manager – Products & Services is a post graduate diploma holder from University of Kent, UK and MBA from the University of Northampton, UK and has been with the company since November 2007. He has 23 years of experience in senior position. He is also on the board of various companies.

Details of the Board members, whom they are representing and details of their directorship in other SAOG companies excluding Al Omaniya Financial Services are set out in Table I

TABLE I	Attendance at the last AGM	No. of meetings attended			Number of directorship in other public companies
		Board	Executive, Nomination& Remuneration Committee	Audit Committee	
Mr. Khalid Said Al Wahaibi, Chairman, representing Assarain Enterprise LLC	Yes	4	-	4	2
Sheikh Khalid Mustahil Al Mashani, Deputy Chairman, representing himself	No	4	4	-	3
Mr. Ibrahim Said Al Wahaibi, Director representing himself	Yes	4	4	-	-
Mr. Zaki Hassan Al Naseeb representing himself	No	4	-	4	3
Mr. K. K. Abdul Razak, Director representing himself	Yes	4	-	4	-
Sheikh Tariq Salim Mustahil Al Mashani, representing Gulf Investment Services SAOG	No	4	4	-	1
Brig. Gen. Saif Salim Saif Al Harthi, Director representing MOD Pension Fund)	Yes	4	-	4	2
Mr. Shikar Bipin Dharamsey Nensey representing himself	Yes	4	4	-	-
Mr. Ketan Dinkarrai Vasa representing Civil Service Employees Pension Fund.	Yes	4	4	-	-

BOARD MEETINGS

The meetings are generally scheduled in advance and the notice of each Board meeting is given in writing to each director. The Board meets at least 4 times in a year with a maximum gap of 4 months between the meetings. The Board Secretary in consultation with the Chairman prepares the detailed agenda for the meeting. The Board papers and other explanatory notes are circulated well in advance. The Board has complete access to all information of the Company.

During the year under review, the Board met four times. The meetings were held on 13 February, 16 May, 04 September and 17 November 2019.

The attendance of each director at the last AGM and Board meetings is set out in Table - I.

BOARD COMMITTEES

EXECUTIVE, NOMINATION & REMUNERATION COMMITTEE

The Executive, Nomination and Remuneration Committee consists of five Directors, who are appointed by the Board. It is chaired by an independent director, who is nominated by the Board.

The purpose of the committee is to review the overall operations of the Company and initiate actions, as required, to ensure smooth operation of the business functions, to assist the board in decision making in the matters concerning the operations of the company which are beyond the authority of the Management. The committee also assist the general meeting in the nomination of proficient directors, assist the Board in selecting the appropriate and necessary executives for the executive management and also fixing the appropriate remuneration and incentives to retain and attract the competent human resources for the company.

The committee shall meet at least twice in a year. The meetings may be called on the request of the Management or by the Executive, Nomination and Remuneration Committee.

The minimum quorum is 3 members and the committee functions within defined terms of reference and the minutes of the committee meetings are circulated and discussed with the Board.

The Committee Chairman was Sheikh Khalid Mustahil Al Mashani and other members are Mr. Ibrahim Al Wahaibi, Sheikh Tariq Salim Al Mashani, Mr. Shikhar Bipin Dharamsey Nensey and Mr. Ketan Dinkarrai Vasa.

The Committee met four times during the year 2019 on 13 February, 16 May, 04 September and 17 November 2019. The number of meetings attended by the members are set out in Table - 1.

AUDIT COMMITTEE

The Audit Committee consists of four non-executive directors and the majority members are independent directors, who are appointed by the Board.

The Audit Committee is constituted in accordance with the provisions of the Corporate Governance requirement.

The Committee Chairman was Mr. Zaki Hassan Al Naseeb and other members are Mr. Khalid Said Al Wahaibi, Mr. K. K. Abdul Razak and Brig. Gen. Saif Salim Saif Al Harthi.

All the members of the Audit Committee are qualified and experienced in the fields of finance and accounts. The quorum for the Audit Committee is two members. The Committee meets at least 4 times in a year. The working plan of the committee is approved by the Board. The terms of reference of the Audit Committee are as per Annexure 3 of the code of Corporate Governance.

The Audit Committee met four times during the year 2019 on 13 February, 11 April, 28 July and 28 October 2019 and the number of meetings attended by the members are set out in Table - 1.

INTERNAL CONTROL

The Audit Committee, on behalf of the Board has regularly reviewed the internal control environment of the Company. The scope of internal audit is to obtain sufficient knowledge of specific business, risks and control status within the company, obtain sufficient data to support the risk assessment of the company, review of the economy, efficiency and effectiveness of operations and of the internal controls and to identify and test the key internal controls.

The company has an independent internal audit function reporting to the Audit Committee. Mr. Jayanta Kumar Mitra, Head of Internal Audit is a qualified chartered accountant with over 18 years of experience.

The Audit Committee has met the internal auditors during the year to review the internal audit reports, recommendations and management comments thereupon. They have also met the external auditors to review audit findings and management letter.

The Audit Committee has also met the compliance officer, internal and external auditors in absence of management as required under the code of Corporate Governance. The Audit Committee has further briefed the Board on a quarterly basis at the board meeting about the effectiveness of internal controls in the company. The Audit Committee and the Board are pleased to inform the shareholders that an adequate and effective internal control system is in place and that there are no significant concerns.

Process of Nomination of Directors

The formation of the Board of Directors is subject to the provision of the Commercial Companies Law and as per CMA directives.

REMUNERATION MATTERS

During the year 2019, the Directors were paid sitting fees for the Board meetings, Executive, Nomination and Remuneration Committee meetings and Audit Committee meetings, fees paid to each director is as follows –

Director	Sitting Fees in RO
Mr. Khalid Said Salim Al Wahaibi	8,000
Shiekh Khalid Mustahil Al Mashani	8,000
Mr. Ibrahim Said Salim Al Wahaibi	8,000
Mr. K.K. Abdul Razak	8,000
Sheikh Tariq Salim Al Mashani	8,000
Mr. Zaki Hassan Ihsan Naseeb	8,000
Mr. Shikar Bipin Dharamsey Nensey	8,000
Mr. Ketan Dinkarrai Vasa	8,000
Brig. Gen. Saif Salim Saif Al-Harthi	8,000

The Board has proposed RO 21,170/- as Directors' Remuneration subject to the approval of the Shareholders at the AGM.

The gross remuneration paid to the top 5 officers of the Company including variable components, traveling expenses outside Sultanate of Oman and cost of local transport during the year 2019 was RO.1,645,228/-.

The severance notice period for these officers ranges from one to three months with end of service benefits payable as per Omani Labour Law.

DETAILS OF NON-COMPLIANCE BY THE COMPANY

The Company has complied with all the regulatory requirements during the year 2019.

MEANS OF COMMUNICATIONS WITH THE SHAREHOLDERS

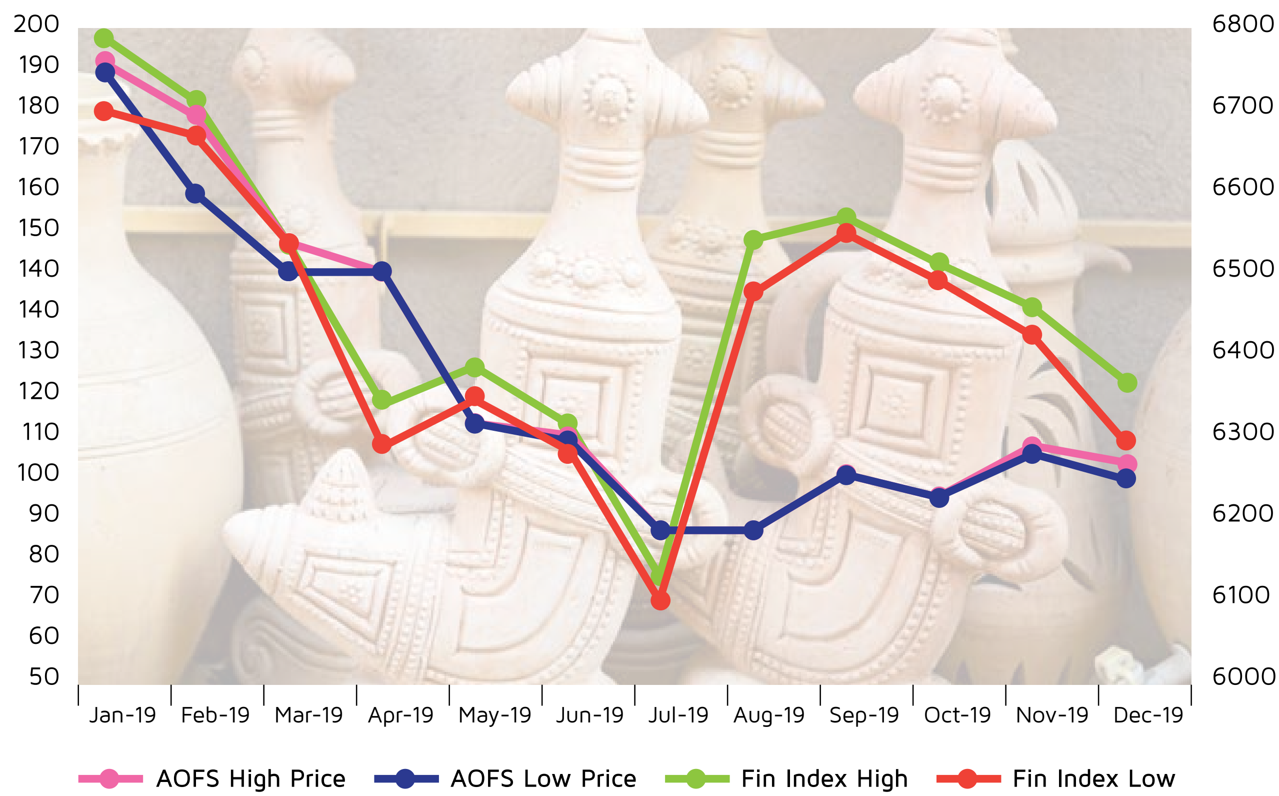
Al Omaniya Financial Services SAOG has 387 shareholders; most of the major shareholders are institutional investors. The main channel of communication is through the annual report, which is mailed to them well before the AGM. The quarterly and annual results of the Company are published in both the Arabic and English newspapers. Quarterly results are mailed to the shareholders based on their request.

The AGM is the principle forum for face-to-face communication with the shareholders and the Company. The Board acknowledges its responsibilities towards the shareholders and encourages open dialogue with them, whenever approached. The Company has its website www.aofsoman.com.

Management Discussion and Analysis is given as part of annual report, which assures the fair presentation of the financial statements.

MARKET DATA

a) The monthly high/low price of Company's share during the year 2019 and performance in comparison to MSM financial sector index is given in the graph below:



PERFORMANCE OF COMPANY COMPARED WITH FINANCIAL SECTOR INDEX

The distribution of Shareholding as of 31 December 2019 is as under:

S.NO.	SHARHOLDER NAME	NO.OF SHARES	%
1	MUSCAT OVERSEAS	52,871,825	18.11
2	CIVIL SERVICE EMPLOYEES PENSION FUND	30,364,514	10.40
3	HINA BIPIN DHARAMSEY	28,959,935	9.92
4	SH.SALIM MUSTAHIL AL MASHANI	26,345,748	9.02
5	ASSARAIN ENTEPRISE LLC	21,715,335	7.44
6	MINISTRY OF DEFENSE PENSION FUND	17,670,324	6.05
7	GULF INVESTMENT SERVICES	14,266,989	4.89
8	HASSAN IHSAN NASEEB	12,264,232	4.20
9	BANK MUSCAT	11,699,341	4.01
10	PUBLIC AUTHORITY FOR SOCIAL INSURANCE	7,472,045	2.56
377	OTHER SHAREHOLDERS	68,304,883	23.40
387	TOTAL SHARES	291,935,171	100.00

OUTSTANDING COMPULSORILY CONVERTIBLE BONDS:

The Outstanding Compulsorily Convertible Bonds, which would impact the equity on its conversion and the terms of conversion of such bonds are explained in detail in the Notes to the audited financial statements.

PROFESSIONAL PROFILE OF THE STATUTORY AUDITOR

The shareholders of the Company appointed Ernst & Young as the Company's auditors for the year 2019. EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,889 partners and approximately 124,318 professionals. Globally, EY operates in more than 150 countries and employs 328,597 professionals in 700 offices. Please visit ey.com for more information about EY.

Ernst & Young in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOGs). During the year 2019, Ernst & Young billed an amount of RO 17,600/- towards professional services rendered to the Company for audit services.

The Company has prepared the financial statements in accordance with the applicable standards and rules and it has also complied with the provisions of the Corporate Governance and has reported it as per reporting requirements of Capital Market Authority. The Board hereby acknowledges that there are no material things that affect the continuation of the company and its ability to continue its operations during the next financial year.

KHALID SAID AL WAHAIBI
Chairman

AFTAB PATEL
Chief Executive Officer

THE ART OF POTTERY: Pottery has been one of Oman's traditional industries for thousands of years. Ancient potteries and soft-stone vessels discovered in Bahla, Sur, Nizwa, Dhofar, Mutrah and Muscat revel that the country's trade and cultural links with the world are spread across the East, China, India, Mesopotamia, Mediterranean, Nile Valley and North Africa.

MANAGEMENT TEAM

Aftab Patel
Chief Executive Officer

Salim Abdullah Al Awadi
Deputy Chief Executive Officer

Braik Musallam Al Amri
GM - Products and Services

Latha Ramakrishnan
GM - Risk Management

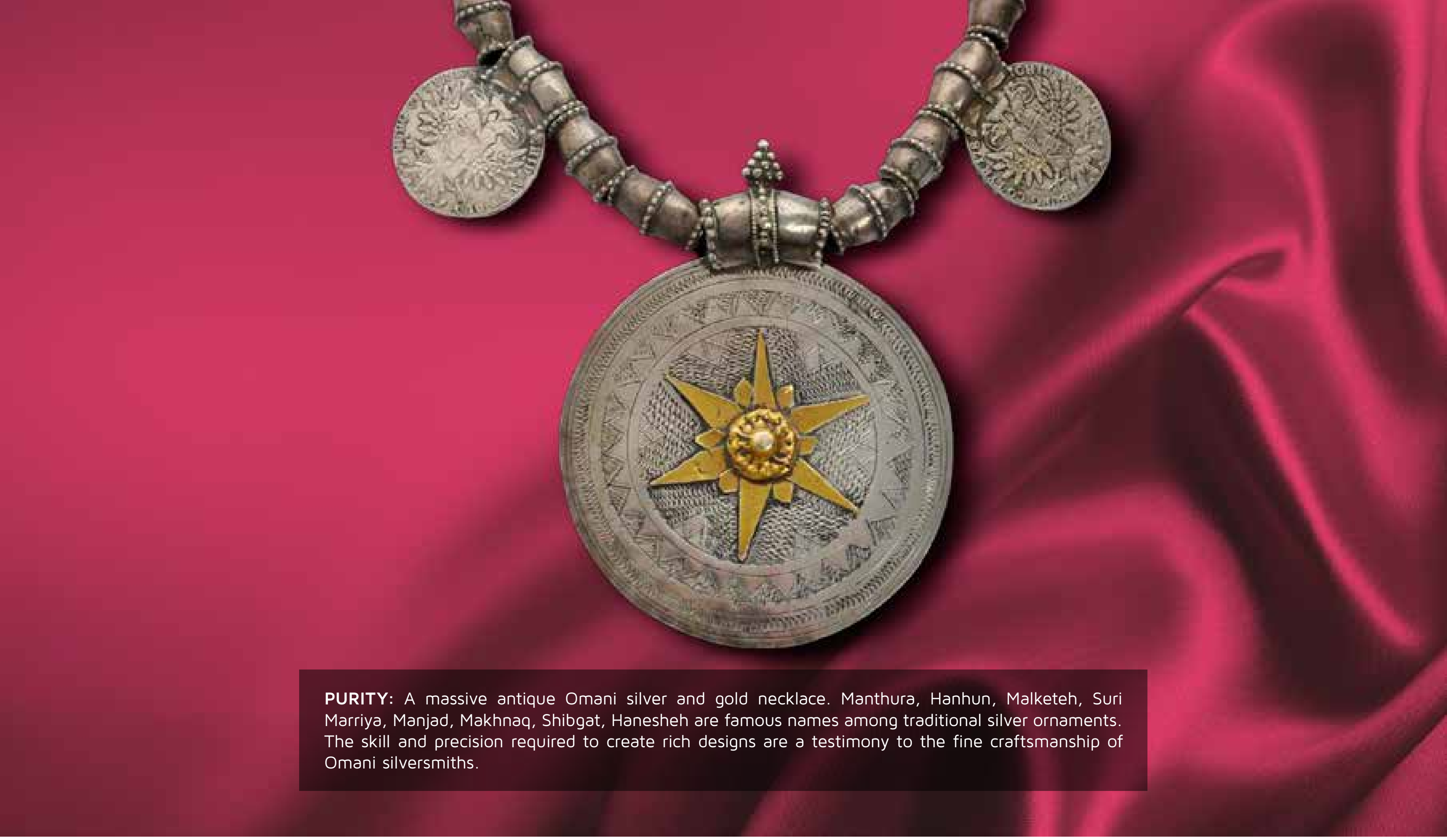
S. Chandrasekar
Chief Manager - Finance

Mohammad Ibrahim Abdulla
Chief Manager - IT

A. K. Mukundan
Chief Manager, Remedial Credit & Collection

M.V.V. Ram Kumar
Chief Manager - Retail Credit

AFTAB PATEL
CEO
Al Omaniya Financial Services SAOG



PURITY: A massive antique Omani silver and gold necklace. Manthura, Hanhun, Malketeh, Suri Marriya, Manjad, Makhnaq, Shibgat, Hanesheh are famous names among traditional silver ornaments. The skill and precision required to create rich designs are a testimony to the fine craftsmanship of Omani silversmiths.

MANAGEMENT DISCUSSION & ANALYSIS REPORT

“The budget for the year 2020 has been pragmatic with the government’s continued focus on controlling deficit, which is expected to decline by 11% from OMR 2.8 billion in 2019 to OMR 2.5 billion in 2020. Expenditure is kept under control with a budgeted increase of only 2%, attributable to an increase in interest cost on borrowings. The budget seeks to continue to spur the national economy by maintaining investment and spending levels, and also supporting economic diversification policy through expanding the participation of private sector for them to play a greater role in the economy and create more job opportunities.”

Overview

Al Omaniya Financial Services (AOFS) has completed 23 years of successful operations as a Non-Banking Financial Institution, offering a comprehensive range of financial products. Over its tenure of more than two decades, the company has established a strong market presence with good systems and processes and has crossed many significant milestones.

The following discussion and analysis provide information that the management believes, is useful in understanding AOFS’s operating results and financial position. The discussion is based on AOFS’s continuing operations and should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report.

"THE COMPANY HAS FOCUSSED AND SUCCEEDED IN RATIONALISING THE COSTS AND IMPROVED COLLECTION MECHANISMS LEADING TO LOWER NPA RATIOS, THE BEST IN THE INDUSTRY."

Certain statements in the MD&AR describing the company's views, objectives, projections, estimates, expectations, etc. may be extrapolative within the ambit of applicable laws and regulations. Actual results could differ materially from those expressed or implied. Important factors like changes in government regulations, tax laws, interest rates in the domestic and international markets, demand and supply of capital goods, etc. may influence the company's operating results.

World Economic Outlook

As we enter the year 2020, global growth is projected to rise from an estimated 2.9 percent in 2019 to 3.3 percent in 2020 and 3.4 percent for 2021. The effects of substantial monetary easing across advanced and emerging market economies in 2019 are expected to continue working their way through the global economy in 2020.
For the emerging market and developing economies, growth is expected to increase to 4.4 percent in 2020 and 4.6 percent in 2021 from an estimated 3.7 percent in 2019.

The risk of protracted sub-par global growth remains tangible despite tentative signs of stabilizing momentum and the following downside risks remain prominent:

- Rising geopolitical tensions, notably between the United States and Iran
- Higher tariff barriers between the United States and its trading partners, notably China
- Deepening crisis of the Corona Virus outbreak in China impacting the global supply chain, because of which the World Bank has decided to lower its growth forecast and OPEC has also trimmed 2020 demand forecast
- Weather-related disasters such as tropical storms, floods, heatwaves, droughts, and wildfires which have imposed severe humanitarian costs and livelihood loss across multiple regions in recent years

The above factors have an impact in reduction of capital inflow, higher financing costs, and exchange rate pressures.

Domestic Economy

Oil & Gas continue to be the major revenue source of Oman economy. Oman's credit ranking was affirmed at BB/B by S&P Global Ratings which has cautioned a negative outlook for the Sultanate for a continuing reliance on hydrocarbon products. IMF said that crude oil as strategic commodity faces numerous challenges because of the progress made in energy alternatives and more boost towards renewable energy.

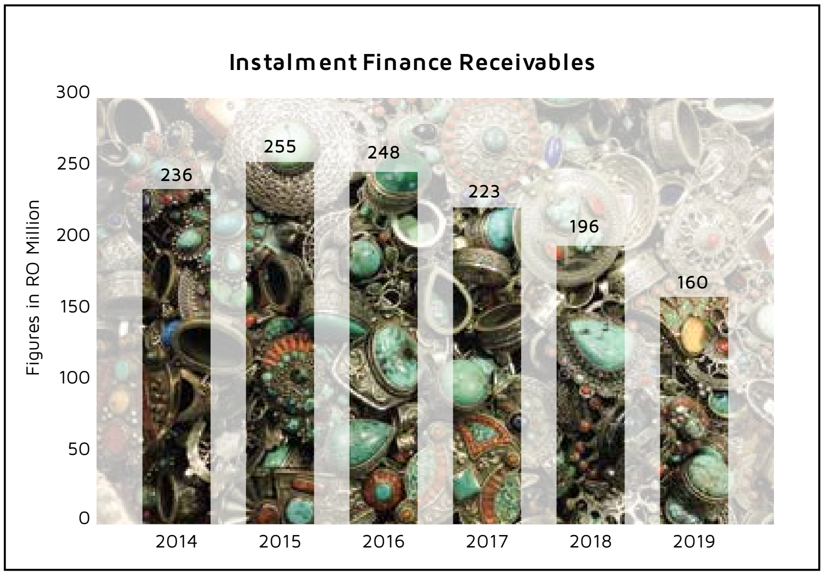
S&P said they could lower the ratings on Oman further over the next 12 months if they perceive that the external debt accumulation is leading to a sizable fiscal deficit. The economy performed moderately in 2018 and 2019 as higher average oil and gas prices, coupled with increased hydrocarbon output, translated into stronger public finances and export growth. The average realized price of oil for 2019 was USD $64/bbl against a budget of USD $58/bbl.

The budget for the year 2020 has been pragmatic with the government's continued focus on controlling deficit, which is expected to decline by 11% from OMR 2.8 billion in 2019 to OMR 2.5 billion in 2020. Expenditure is kept under control with a budgeted increase of only 2%, attributable to an increase in interest cost on borrowings. The budget seeks to continue to spur the national economy by maintaining investment and spending levels, and also supporting economic diversification policy through expanding the participation of private sector for them to play a greater role in the economy and create more job opportunities.

The banking sector has recorded weakness and credit growth fell to 3 percent in 2019 as against 6 percent in the previous year coupled with higher delinquency and decreased international ratings. By employing robust yet flexible strategies under the governance of the Central Bank of Oman, the sector has delivered a moderate performance defined by best practice.

Non-Banking Finance Companies Sector

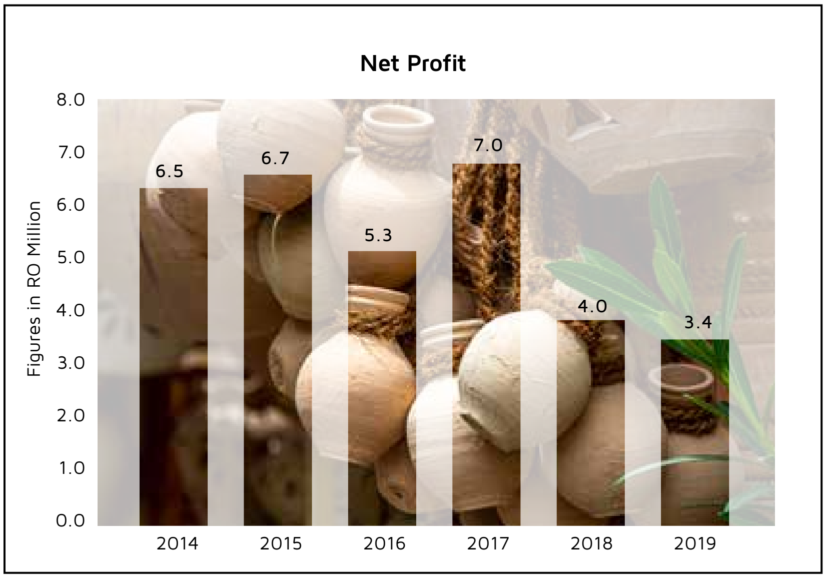
The industry has faced major challenges during the year 2019, apart from the reduction in quality credit offtake in addition to competition from commercial banks and Islamic banks including the Islamic windows of commercial banks in the retail and SME segment. To meet the regulatory requirements, the banks were also aggressive in the SME Segment and they have managed to wean away customers in this segment from NBFCs bringing down both the credit quality and yields. The NBFCs also witnessed tightening of liquidity in the market leading to increase in the cost of funding.



Oman's non-banking finance companies are undergoing challenging times as the slowdown in their asset growth, declining margins and increasing non-performing loans has put further pressure on their profitability. Going forward, the low credit offtake combined with the increasing funding cost, reduced margins, and increasing NPLs may put pressure on the profitability of the NBFCs and they may find it increasingly challenging to maintain the level of profitability unless the economic situation improves.

Opportunities and Threats

Maintaining Asset Quality has been the primary focus of the company. There has been cash flow distress with major contracting companies. The delay in government spending and the slowdown in project payments has impacted the cash flows of the major contracting firms as well as sub-contractors trickling down the line at the individual level as well. This has resulted in a major systemic risk in the financial system leading to deterioration in the asset quality, restrictive credit sanctioning, increase in the-non-performing loans and higher provision requirement for bad and doubtful debts. Hence, the company has been very cautious in writing business this year.



The fiscal and economic policies of the government for the year 2020 are prudent and forward looking. With expected release of funds for completed projects and some new spending on infrastructure and tourism sector, the economic activities are expected to improve the optimism.

The company has focused and succeeded in rationalising the costs and improved collection mechanisms leading to lower NPA ratios, the best in the industry.

The company has over the years, planned the necessary human resources, enhanced the capital base and is continuously seeking to upgrade and develop IT system to address the need of the hour like Document Management System, Remote Deposit Capture (RDC), Call Centre Interactive Voice Recording, migration from Windows 7 to Windows 10 OS etc.

The company follows a prudent and aggressive provisioning policy and this has given it an advantageous NPA coverage of 183% (including the specific reserve for non-performing assets) which will help the company to tide over any unforeseen losses. However, shrinking cash flows and tight liquidity could increase delinquencies which might warrant higher provisioning subject to behaviour of the debt.

In this scenario, where liquidity is in stress, quality assets are missing and banks are scouting for curbing our limits as far as they remain un-utilised, the company has mobilised loans from local and offshore banks at very competitive rates and placed Time Deposits with commercial banks with different maturity buckets so that the same can be liquidated any time with minimum notice period either to repay any of our liabilities or to fund new business, if any.

The company is proactive, confident and properly geared up to meet the challenges and exploit the available opportunities for a profitable and sustained growth both in the short as well as long run without compromising on the quality.

Product Wise Performance

The company with its existing product lines of project funding through consortium financing, working capital funding, asset financing, bills discounting and debt factoring, including its '**Lifeline**' and '**Lifestyle**' segments has managed to retain the quality of assets.

The retail asset financing product under the brand name '**Lifeline**' offers a variety of specialised finance products for the self-employed, salaried individuals, transport operators, small and large businesses, etc. The '**Lifestyle**' loan segment (micro credit program) continues to do exceedingly well and the company has a good network through its branches and employer tie-ups.

Our service has the unique attributes of speed, transparency, quick response, empathy, understanding customer concerns and ethical fair practices. We endeavour to build products and services around customer needs. Our deliverables of simple documentation, quick credit approvals, competitive interest rates and other value added services have created a large satisfied clientele for the company.

Business Continuity Plan

Based on the Board approved Business Continuity Plan (BCP), and based on Business Impact analysis, the company has tested the BCP successfully from its BCP site at Nizwa on the 7 November 2019.

The company has the necessary BCP set up at its alternate site at Nizwa and back up and disaster recovery operations for its IT Systems were tested and found robust. The company has the capacity to continue major operational activities in the unfortunate event of major disruptions with minimum down time.

Risks and Concerns

Managing risks means understanding the static and dynamic risks involved in our businesses and assessing the potential impacts and likelihood of each risk. The overall risk governance framework of the company includes strong corporate oversight, independent internal audit function and well laid down policies and processes.
The company is exposed to strategic risk, credit risk, liquidity risk and interest rate risk.

Strategic Risk

Strategic risk is the potential for loss arising from ineffective business strategies, the absence of integrated business strategies, the inability to implement integrated business strategies, and the inability to adapt the strategies to changes in the business environment.

The company's overall strategy is established and approved by the Board in consultation with the Management and the Senior Executive Team. The most significant strategic risks faced by the company are identified, assessed, managed and mitigated by Senior Management, with oversight by the Board.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The company attempts to control credit risk by setting limits for individual borrowers, monitoring credit exposures, limiting transactions with specific counter parties and assessing continually the creditworthiness of counter parties.

The default risk for the company is at an acceptable level. The company has substantially lowered its NPA percentage and has one of the lowest NPA levels in the industry.

Liquidity Risk

Liquidity risk is the risk that the company will be unable to meet its liabilities when they fall due. The business of lending has an inherent risk of liquidity arising from the mismatch of tenure of funds borrowed vis a vis lent, in addition to unforeseen adverse recovery patterns.

To limit the liquidity risk, the Management through their carefully drawn up strategies, has diversified sources of funds, avoids undue concentration on a single lender, periodically reviews cash flows and manages its collection in a systematic manner. The company, anticipating liquidity risk, and has maintained ample liquidity buffer throughout the year by way of deposits, in addition to having committed unutilised lines of credit.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The company is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period.

The company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

Internal Control and Adequacy

The company believes that Internal Control is a necessary concomitant of the principle of governance and has made conscious efforts to ensure quality in its deliverables and processes.

The company has Board committees and Management committees, which are charged with strategic decision making, efficient and effective operations of the company and ensuring that good corporate governance policies, conforming to regulatory requirements are in place.

The company has a well defined organization structure, clearly defined authority levels well documented policies and guidelines approved by the Board and good in house IT systems to ensure process efficiency.

The company has put in place a mechanism to minimize operational risk by way of effective Internal Control Systems, Systems Review and an on–going Internal Audit program. The company has a well balanced in house Internal Audit department and the internal auditor undertakes comprehensive audits and reports directly to the Audit Committee of the Board. The Audit Committee of the Board reviews the internal audit reports, the adequacy of the internal controls and reports on the same to the Board.

Financial Performance 2019

Operational Performance

The year 2019 again was a challenging year for the economy as a whole and the company retained its position in terms of its asset quality. Looking back, we take pride in the achievements of the company as a leading player in the industry in maintaining quality assets and lowest NPA's. Today's position has been achieved with careful planning and clear strategies, supported by sound vision and guidance by the Board.

During the year the company's main focus was to maintain the quality of assets. In 2019 the company concentrated more on collection and consolidation of receivables than going for writing fresh business.

The company has successfully overcome the liquidity stress by maintaining a prudent mix of short term vs long term borrowing. The company successfully moped up US$ 60 Million term loan and is in the process of mobilising some more US$ loans subject to regulatory norms.

The non-performing loans of the company are under control and the company's existing estimated credit loss level, including ECL on deposits of RO 6.925 Million is more than the provisions requirement of Central Bank of Oman. The non-performing assets coverage including the specific reserve for non-performing assets stands at 183%.

The company's Loan Book recorded a fall of 19% from last year and stands at RO 153.7 million at the year end. The net operating income stood at RO 11.61 million as compared to RO 12.14 million in the previous year. The company was able to register a net profit of RO 3.43 million for the year 2019 producing earnings per share of 0.012 baisa on the increased share capital.

For all the regulatory purposes, the company's neat worth stands at RO 69.871 million, against the previous year figure of RO 69.663 million. The Book Value / Net Asset Value of the company's share stands at RO 0.224. The company has proposed a dividend of 14.5% for the year 2019, subsequently the CBO has approved a dividend of 11.05% for the year 2019 comprising cash dividend of 7.05% and and 4% compulsorily convertible unsecured bonus stock bonds with a face value of RO 0.100 (subject to approval at the AGM). This would take the total pay-out since inception to 450.33%.

Performance review	(in RO `000)					
	Years					
Details	2014	2015	2016	2017	2018	2019
Total income	18,917	19,198	18,963	19,790	18,284	17,640
Interest expenses	(4,964)	(4,487)	(6,256)	(6,470)	(6,141)	(6,028)
Net Income	**13,953**	**14,711**	**12,707**	**13,320**	**12,143**	**11,612**
Operating expenses	(4,634)	(5,150)	(4,834)	(4,737)	(4,449)	(4,401)
Estimated Credit Loss	(1,959)	(2,000)	(1,601)	(3,100)	(2,956)	(3,176)
Reversal of Taxed Provision for Impairment Instalment Receivables	-	-	-	2,939	-	-
Profit before taxation	**7,360**	**7,561**	**6,272**	**8,422**	**4,738**	**4,035**
Income Tax Expense - Current Year	(880)	(904)	(961)	(1,000)	(245)	(605)
Income Tax Expense - Prior Year	-	-	-	-	(466)	-
Deferred Tax Adjustment	-	-	-	441	-	-
Net profit	**6,480**	**6,657**	**5,311**	**6,981**	**4,027**	**3,430**
Gross HP assets	235,917	254,838	247,619	222,800	196,200	160,363
Net HP assets	**228,266**	**246,180**	**238,896**	**216,745**	**189,725**	**153,716**
Estimated Credit Loss	7,651	8,658	8,723	6,055	6,975	6,925
Total Assets	241,584	274,276	275,875	244,604	236,235	243,767
Net bank borrowings	145,820	157,835	153,370	136,713	107,295	71,227
Net worth	63,619	66,831	67,944	70,366	69,663	69,871
Earnings per share (stated in 100 Baisas per Share for comparative purpose)	0.028	0.028	0.020	0.026	0.014	0.012
Debt Equity ratio (net bank borrowing)	2.29	2.36	2.26	1.94	1.54	1.02
ECL on Instalment finance receivable as a percentage of assets	3.24%	3.40%	3.52%	2.72%	3.30%	4.14%
Dividend %	25%	25%	25%	20%	16.28%	*11.05%

* Dividend for 2019 (7.05% cash and 4% Compulsorily Convertible bonus stock bonds (subject to the approval at the AGM).

Human Resources

Employees are a critical part of our competitive advantage. We have sound Human Resource policies, on and off the job training, counselling and a scientifically designed reward system, which helps us to create a dependable, highly skilled and motivated work force. During the year the company maintained its Omanisation percentage.

Our Customer

AOFS is committed to delivering superior value through a powerful, distinctive branding which ensures better customer retention, better value and increased business with each customer. Our huge client base stands testimony to this fact.

Capital Structure

The Company's objective of the capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The company manages its capital structure and makes adjustments to it in the light of changes in business conditions. No changes were made in the objectives, policies or processes during the current year.

The Company's lead regulator Central Bank of Oman sets and monitors capital requirement as a whole. The Company's current paid up capital is RO 29.194 million which is well above the regulatory requirement of RO 25 million.

Future Outlook

The company has reached its healthy position in the industry today after undergoing many business cycles under challenging economic circumstances. The company has also capitalized every single growth opportunity with its enviable strengths namely,

- Sound and innovative capital structure.
- Superior service to its loyal customers.
- Novel and valuable integrated business model.
- Lesser delinquency ratio due to very effective collection mechanism.
- Good provisioning for impairment.
- Timely product diversification.
- Consistent earnings.
- Highly automated IT real time systems and processes.

We remain focused on maintaining quality assets with the objective of consistent returns for all our stakeholders. Our priorities for the coming year are:

- Cautious lending policies in all existing product lines.
- Products structuring & better packaging to suit the market demand.
- To manage the liquidity and costs judiciously to ensure sustainable earnings and profitability.
- Continue our leadership excellence and continue training and retaining the highly skilled and diverse work force.
- Offer superior delivery mechanism and personalised customer service to build customer loyalty and superior brand positioning.

From inception till date the company has been delivering on its commitment of increasing shareholders' wealth.

It's a relentless pursuit of excellence and a commitment to continual improvement. Our endeavor is to constantly seek out new processes, products and efficiencies aimed at making things better for our customers. Our success is attributable to the dedication of our employees and our continued focus on keeping commitments to our stakeholders. The management continues to closely monitor economic conditions and indicators including interest rates, delinquency and capital markets. Management believes that though weakening economy has an impact on all businesses and industries, the company has an operational and capital structure that can put it into the pedestal of growth as and when the opportunity arise. The sound guidance and encouragement from our Board of Directors has played a significant role in maintaining the asset quality and profitability. Our aim is to build on our heritage of success and to make AOFS, an admirable and illustrious financial service provider for today and the next generation.

AFTAB PATEL
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
AL OMANIYA FINANCIAL SERVICES SAOG

Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL OMANIYA FINANCIAL SERVICES SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Al Omaniya Financial Services SAOG (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and 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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL OMANIYA FINANCIAL SERVICES SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

1. Impairment provision for instalment finance receivables

Key audit matters	*How our audit addressed the key audit matters*
The process for estimating impairment provision on instalment finance receivables associated with credit risk in accordance with IFRS 9 Financial instruments (IFRS 9) is a significant and complex area. IFRS 9 is a new and complex accounting standard which requires use of expected credit loss (ECL) model for the purposes of calculating impairment loss. ECL model requires the Company to exercise significant judgement using subjective assumptions when determining both the timing and the amounts of ECL for instalment finance receivables. Because of the complexity of requirements under IFRS 9, significance of judgements applied and the Company's exposure to instalment finance receivables forming a major portion of the Company's assets, the audit of ECL for loans and advances is a key area of focus. The accounting policies relating to instalment finance receivables, critical accounting estimates and judgements, and the disclosures relating to impairment of instalment finance receivables are set out in notes 2.5.13, 2.3.3 and 8 to the financial statements.	Our procedures in this area included the following: • Evaluated the appropriateness of the Company's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions. • Evaluated the reasonableness of the Company's key judgements and estimates made in the ECL computation and involved specialists to assist in evaluating the judgements and estimates relating to probability of default, macro-economic variables and recovery rates; • For a sample of exposures, we performed procedures to evaluate: o Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; o Timely identification of exposures with a significant increase in credit risk and appropriateness of the Company's staging; and o ECL calculation • Checked the completeness of the instalment finance receivables (including off balance sheets) in the ECL calculation as of 31 December 2019. We understood the theoretical soundness and tested the mathematical integrity of the models; • Checked the consistency of various inputs and assumptions used by the Company's management to determine impairment provisions; and • Considered the adequacy of the disclosures in the financial statements in relation to impairment of loans and other financial assets subject to credit risk as required under IFRS 9.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL OMANIYA FINANCIAL SERVICES SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

Other information included in the Company's 2019 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Company's 2019 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2019 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

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

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

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

Responsibilities of management and those charged with governance for the financial statements

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance 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, those charged with governance are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance 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.

Auditor's responsibilities for the audit of the financial statements

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL OMANIYA FINANCIAL SERVICES SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

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

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

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

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

Building a better
working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL OMANIYA FINANCIAL SERVICES SAOG (CONTINUED)

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law, as amended, and CMA of the Sultanate of Oman.

ارنست ويونغ ش م م
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Bassam Moustafa Hindy
Muscat
18 March 2020

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RO	2018 RO
Instalment finance income		**14,790,338**	16,455,086
Interest expense		**(6,027,533)**	(6,141,260)
Net instalment finance income		**8,762,805**	10,313,826
Finance income		**2,076,924**	1,116,064
Other income	3	**772,803**	713,183
Operating expenses	4	**(4,263,816)**	(4,321,980)
Provision for expected credit loss, net	6, 8	**(3,176,000)**	(2,956,100)
Depreciation	10	**(137,716)**	(127,338)
Profit before tax		**4,035,000**	4,737,655
Income tax expense	5	**(605,250)**	(710,979)
Profit and total comprehensive income for the year		**3,429,750**	4,026,676
Basic earnings per share	21	**0.012**	0.014
Diluted earnings per share	22	**0.011**	0.014

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	Notes	2019 RO	2018 RO
Assets			
Cash and Bank balances	6	**87,429,557**	43,992,148
Deposit with the Central Bank of Oman	7	**250,000**	250,000
Instalment finance receivables	8	**153,716,322**	189,724,749
Other assets and prepayments	9	**1,267,199**	782,341
Property and equipment and right-of-use assets	10	**1,103,982**	1,121,010
Deferred tax asset	5	**-**	364,305
Total assets		**243,767,060**	236,234,553
Liabilities and equity			
Liabilities			
Short term loans	11	**69,000,000**	93,100,000
Deposits	12	**4,228,243**	3,500,000
Term loans	13	**89,934,079**	58,687,500
Compulsorily convertible bonds	20	**4,401,402**	4,201,658
Other liabilities	14	**9,614,580**	10,160,225
Income tax payable	5	**1,118,911**	1,123,487
Total liabilities		**178,297,215**	170,772,870
Equity			
Share capital	15	**29,193,517**	28,562,447
Share premium	16	**1,280,013**	2,321,184
Legal reserve	17	**9,731,173**	9,520,816
Exchange reserve	18	**523,316**	-
Special reserve for non-performing assets	23	**4,997,937**	4,997,937
Retained earnings		**19,743,889**	20,059,299
Total equity		**65,469,845**	65,461,683
Total liabilities and equity		**243,767,060**	236,234,553
Contingent liabilities	14	**749,589**	5,982,029
Net assets per share		**0.224**	0.229

The financial statements were approved by the Board of Directors on 27 January 2020 and are signed on their behalf by:

Chairman **Director**

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Notes	Share capital	Share premium	Legal reserve	Exchange reserve	Special reserve for non-performing assets	Retained Earnings	Total
		RO	RO	RO	RO	RO	RO	RO
Balance at 1 January 2018		27,679,067	2,491,966	9,226,356	1,600,221	2,497,937	21,661,375	65,156,922
Profit and total comprehensive income for the year		-	-	-	-	-	4,026,676	4,026,676
Transfer to special reserve for non-performing assets	23	-	-	-	-	2,500,000	(2,500,000)	-
Issue of compulsory convertible bonus stock bonds		-	(830,372)	-	-	-	-	(830,372)
Dividend paid	19	-	-	-	-	-	(4,705,441)	(4,705,441)
Conversion of compulsorily convertible bonus stock bonds	20	883,380	954,050	-	-	-	-	1,837,430
Reversal of exchange reserve	18	-	-	-	(1,600,221)	-	1,576,689	(23,532)
Transfer to legal reserve	17	-	(294,460)	294,460	-	-	-	-
Balance at 31 December 2018		28,562,447	2,321,184	9,520,816	-	4,997,937	20,059,299	65,461,683
Profit and total comprehensive income for the year		-	-	-	-	-	**3,429,750**	**3,429,750**
Transactions with owners, recognised directly in equity								
Issue of compulsory convertible bonus stock bonds		-	**(1,428,122)**	-	-	-	-	**(1,428,122)**
Dividend paid	19	-	-	-	-	-	**(3,221,844)**	**(3,221,844)**
Conversion of compulsorily convertible bonus stock bonds	20	**631,070**	**597,308**	-	-	-	-	**1,228,378**
Transfer to exchange reserve	18	-		-	**523,316**	-	**(523,316)**	-
Transfer to legal reserve	17	-	**(210,357)**	**210,357**	-	-	-	-
Balance at 31 December 2019		29,193,517	**1,280,013**	**9,731,173**	**523,316**	**4,997,937**	**19,743,889**	**65,469,845**

As approved by the regulatory authority and more fully explained in note 20, the unsecured fully compulsorily convertible bonds amounting to RO 4,401,402 (2018: RO 4,201,658) are treated as part of the Company's net worth for computing all regulatory limits. Accordingly, the net worth as of 31 December 2019 for all regulatory purposes is RO 69,871,247 (2018: RO 69,663,341).

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Note	2019 RO	2018 RO
Operating activities			
Profit before taxation		**4,035,000**	4,737,655
Adjustments for:			
Depreciation	10	**137,716**	127,338
Profit on disposal of property and equipment	3	**(2,127)**	(19,640)
Reserved finance interest	8	**215,475**	248,911
Provision for ECL of instalment finance receivable - net	6, 8	**3,176,000**	2,956,100
Operating profit before working capital changes:		**7,562,064**	8,050,364
Instalment finance receivable		**32,395,417**	24,315,254
Other assets and prepayments		**(484,857)**	768,634
Other liabilities		**(618,684)**	550,376
Income tax paid		**(253,744)**	(1,038,289)
Net cash from operating activities		**38,600,196**	32,646,339
Investing activities			
Purchase of property and equipment	10	**(40,953)**	(44,141)
Proceeds from disposal of property and equipment		**3,653**	19,640
Net cash used in investing activities		**(37,300)**	(24,501)
Financing activities			
Proceeds from short term loans		**134,250,000**	69,100,000
Repayment of short term loans		**(158,350,000)**	(42,500,000)
Proceeds from deposits		**2,000,000**	1,500,000
Repayment of deposits		**(1,271,757)**	-
Proceeds from term loans		**90,648,500**	51,750,000
Repayment of term loans		**(59,401,921)**	(87,764,188)
Dividends paid	19	**(3,221,844)**	(4,705,441)
Net cash used in financing activities		**4,652,978**	(12,619,629)
Net change in cash and cash equivalents		**43,215,874**	20,002,209
Cash and cash equivalents at the beginning of year		**44,491,648**	24,489,439
Cash and cash equivalents at the end of year	6	**87,707,522**	44,491,648

The attached notes 1 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Omaniya Financial Services SAOG ("the Company") is an Omani general joint stock Company, licensed by the Central Bank of Oman and registered under the Commercial Companies Law of the Sultanate of Oman. The Company is engaged in the hire purchase and lease finance for motor vehicles and other assets, debt factoring, bills discounting, bridge loans, working capital loans and project and construction loans (construction loans restricting to manufacturing including warehousing only). The Company's registered office is at PO. Box 1087, Jibroo, Postal Code 114, Muscat, Sultanate of Oman.

The Company operates in the Sultanate of Oman and employed 154 employees as of 31 December 2019 (2018: 162). The Company's shares and compulsory convertible bonds are listed on Muscat Securities Market.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared on the historical cost basis. The accounting records are maintained in Rial Omani (RO) which is the functional and reporting currency for these financial statements.

2.2 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs), applicable regulations of the Central Bank of Oman, applicable requirements of the Commercial Companies Law, as amended and the Capital Market Authority of the Sultanate of Oman.

The new Commercial Companies Law promulgated by the Royal Decree No. 18/2019 (the Commercial Companies Law of the Sultanate of Oman) was issued on 13 February 2019 which has replaced the Commercial Companies Law of 1974. As per the articles of the Royal Decree No. 18/2019, the new Commercial Companies Law became effective on 17 April 2019 and the companies should comply with the new law within 1 year from 17 April 2019.

The Company presents its statement of financial position broadly in order of liquidity.

2.3 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, estimates that involve uncertainties and judgements which have a significant effect on the financial statements are set out below:

2.3.1 Taxes

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

Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2. ACCOUNTING POLICIES (continued)

2.3.2 Financial Instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2019 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.
- alculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL for the year ended 31 December 2019 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

The measurement of ECL both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns PDs to the individual grades;
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2.3.3 Significant judgement in determining the lease term of contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or to terminate

2. ACCOUNTING POLICIES (continued)

2.3.4 Leases – Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the fund necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit ratings).

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

The following new standards and amendments became effective as at 1 January 2019:

- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- Annual IFRS Improvement Process
- IFRS 3 Business Combinations - Previously held Interests in a joint operation
- IFRS 11 Joint Arrangements - Previously held Interests in a joint operation
- IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

The above standards, other than IFRS 16, do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Accordingly, the comparatives are not restated.

2. ACCOUNTING POLICIES (continued)

Nature of effect of adoption of IFRS 16:

Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The Company recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. For the leases previously classified as operating leases, the lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Practical expedients:

The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Impact on transition

As at 1 January 2019, the Company recorded right-of-use assets of RO 81,261 and lease liabilities of RO 81,261. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate of 4.2% at 1 January 2019.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

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

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Company but are not yet mandatory for the year ended 31 December 2019:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material

2.5 Summary of significant accounting polices

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements except as noted in 2.4.

2.5.1 Interest income

Under IFRS 9, interest income and expense are recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVTPL. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when

2. ACCOUNTING POLICIES (continued)

appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

Interest income which is doubtful of recovery is included in ECL allowance and excluded from income until it is received in cash.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.The Company currently follows CBO regulations for reserving interest income.

2.5.2 Directors' remuneration

The Board of Directors' remuneration is accrued as an expense within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman for the year.

2.5.3 Taxation

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

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

Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax assets/liabilities are calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2.5.4 Cash and cash equivalents

All bank balances with maturity of three months or less from the date of placement are considered to be cash equivalents and it is shown net of ECL provision.

2.5.5 Instalment finance receivable

Instalment finance debtors are stated at amortised cost using the effective interest rate method less any amounts written off, provision for ECL and reserved interest.

2. ACCOUNTING POLICIES (continued)

2.5.6 Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation. Cost represents purchase cost together with any incidental costs of acquisition. Land is not depreciated. The cost of property and equipment is depreciated on the straight-line method over the estimated useful lives of the assets. The estimated useful lives are:

- Vehicles	5 years
- Furniture and office equipment	5 years
- Buildings	25 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount. Gains and losses on disposals of property and equipment are determined by reference to their carrying amounts and are recognised in the statement of profit or loss. Right-of-use assets are depreciated on a straight-line basis over the lease term.

2.5.7 Compulsorily convertible bonds

Compulsorily convertible bonds are non derivative financial instruments for which the entity is obliged to deliver a variable number of the entity's own share. These are recorded as financial liabilities until conversion to shares and are carried on the statement of financial position at their principal cost. Interest is charged as it accrues, with unpaid amounts included in other liabilities. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

2.5.8 Bank borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

2.5.9 Deposits

Customer deposits are carried at cost less amounts repaid.

2.5.10 Other liabilities

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

2.5.11 Employee's end of service benefits

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the statement of comprehensive income as incurred.

2. ACCOUNTING POLICIES (continued)

2.5.12 Foreign currencies

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the reporting date. All differences are taken to the profit or loss.

2.5.13 Financial instruments

2.5.13.a Date of recognition and initial measurement

The Company initially recognises installment finance receivables, deposits, and term loans on the date on which they originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

2.5.13.b Measurement categories of financial assets and liabilities

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:

- Amortised cost;
- FVOCI,
- FVTPL

(i) Installment finance receivable and term deposits at amortised cost

The Company only measures due other money market placements, loans, advances and financing 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;
- 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.

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 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

2. ACCOUNTING POLICIES (continued)

- 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.

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

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.

The Company holds a portfolio of long-term fixed rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

(ii) 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.

2. ACCOUNTING POLICIES (continued)

(iii) Financial guarantees, letters of credit and undrawn loan commitments

The Company issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and under IFRS 9 an ECL provision.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Financial guarantee contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

(iv) Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, 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.

2.5.14 Derecognition of financial assets and financial liabilities

Financial assets:

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

(a) the right to receive cash flows from the asset have expired; or

(b) 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

(c) either (i) the Company has transferred substantially all the risks and rewards of ownership, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control over the asset or a proportion of the asset.

2. ACCOUNTING POLICIES (continued)

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 statement of comprehensive income.

2.5.15.1 Impairment of financial assets

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

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No ECL is recognised on equity investments. The Company measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition which they are measured as 12-month ECL.

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.

(i) Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

2. ACCOUNTING POLICIES (continued)

(ii) Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Company's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to ECL under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12m ECL).

The 12m ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12m ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1

When financing are first recognised, the Company recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from Stage 2.

Stage 2

When a financing exposure has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 financing exposure also include facilities, where the credit risk has improved and the financing exposure has been reclassified from Stage 3.

Stage 3

Financing exposure considered credit-impaired. The Company records an allowance for the LTECLs.

At initial recognition of a financial asset, the Company recognises a loss allowance equal to 12-month expected credit losses. After initial recognition, the three stages under the proposals would be applied as follows:

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

2. ACCOUNTING POLICIES (continued)

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).

(iii) The calculation of ECLs

The Company calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

iv) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

(v) Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Company only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

(vi) Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- Gross domestic product
- Oil prices and production

2. ACCOUNTING POLICIES (continued)

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

(vii) Collateral valuation
To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Company's collateral, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is the policy of the Company to include collateral in ECL only if the fair value are validated by external valuer except for Cash/Bank Balance.

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued by certified third party valuers.

(viii) Write-offs
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

2.5.16 Renegotiated instalment finance receivable

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected amortised fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

2.5.17 Provisions

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

2.5.18 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

2.5.19 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. Details are set out in note 26.

2. ACCOUNTING POLICIES (continued)

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

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.

2.5.20 Earnings per share

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

2.5.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Committee that makes strategic decisions.

2.5.22 Financial guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

2. ACCOUNTING POLICIES (continued)

2.5.23 Offsetting

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

2.5.24 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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

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

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g, a changes in future payments resulting from a change in index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset.

c. Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3 OTHER INCOME

	2019	2018
	RO	RO
Documentation and related charges	**633,474**	512,484
Other income	**137,202**	181,059
Profit on sale of property and equipment	**2,127**	19,640
	772,803	713,183

4 OPERATING EXPENSES

	2019	2018
	RO	RO
Salaries and other benefits	**3,740,906**	3,798,901
Directors' remuneration (note 25)	**31,688**	59,166
Advertising	**62,209**	21,090
Rent	**26,086**	43,798
Telephone and postage	**32,550**	37,668
Miscellaneous expenses	**86,689**	39,450
Professional fees	**53,660**	63,111
Fuel and maintenance	**93,759**	99,105
Directors' sitting fees (note 25)	**72,000**	77,600
Printing and stationery	**9,212**	12,384
Fees and other charges	**31,110**	42,324
Annual general meeting expenses	**5,500**	8,000
Insurance	**12,000**	12,000
Travelling	**6,447**	7,383
	4,263,816	4,321,980

Salaries and other benefits comprise:

	2019	2018
	RO	RO
Salaries	**2,525,696**	2,549,377
Other benefits	**1,004,626**	1,036,200
Contribution to social insurance	**138,733**	135,157
Employee end of service benefits	**71,851**	78,167
	3,740,906	3,798,901

5 TAXATION

	2019 RO	2018 RO
Income statement:		
Current year	**605,250**	245,182
Deferred tax	**364,305**	-
Prior years	**(364,305)**	465,797
	605,250	710,979
Current liability:		
Current year	**605,250**	245,182
Prior years	**513,661**	878,305
	1,118,911	1,123,487
Deferred tax asset:		
At 1 January	**364,305**	364,305
Movement for the year	**(364,305)**	-
At 31 December	-	364,305
The deferred asset comprises the following temporary differences		
Provision for expected credit loss of instalment finance receivable	-	364,193
Property and equipment	-	112
	-	364,305

Following is the tax reconciliation for the year:

	2019	2018
Accounting profit before tax	**4,035,000**	4,737,655
Tax at the applicable rate of 15% (2018: 15%)	**605,250**	710,648
Expenses that are not deductible in determining taxable profit:	**1,178**	331
Deferred tax reversed for previous years	**364,305**	-
Reversal of tax Provision of prior years	**(365,483)**	-
	605,250	710,979

The relationship between the tax expense and the accounting profit can be explained as follows:

	2019 RO	2018 RO
Accounting profit	**4,035,000**	4,737,655
Expenses that are not deductible in determining taxable profit	**7,852**	2,208
Movement in allowance for expected credit loss	-	(3,090,920)
Depreciation	**11,159**	(14,394)
Taxable profit	**4,054,011**	1,634,549
Effective rate of income tax	**14.93%**	43.50%

5 TAXATION (CONTINUED)

The above adjustments in accounting profit to arrive at taxable profit are based on the current understanding of the existing tax laws, regulations and practices. Income tax rate applicable for the year is 15% (2018: 15%).

The tax assessments for the years up to 2016 have been completed. The tax returns of the Company for the tax years 2017 to 2018 have not yet been assessed with the Secretariat General for Taxation at the Ministry of Finance. In line with the completed assessment years, an additional tax for the open years has been created and the Management is of the opinion that any further additional taxes, if any, related to the open tax years would not be significant to the Company's financial position as at 31 December 2019.

6 CASH AND BANK BALANCES

	2019	2018
	RO	RO
Term deposits	**87,000,000**	37,000,000
Current accounts	**685,879**	7,440,069
Cash in hand	**21,643**	51,579
Less: - expected credit loss allowance	**(277,965)**	(499,500)
	87,429,557	43,992,148

	2019	2018
	RO	RO
Provision for ECL of deposits with commercial banks:		
At 1 January	**499,500**	-
Provided during the year – deposits with commercial banks	**-**	499,500
Released during the year – deposits with commercial banks	**(221,535)**	-
At 31 December	**277,965**	499,500

Term deposits are placed with commercial banks in Oman and carries annual interest rates in the range of 0.05% to 4.95% and the Company has the right to pre-close these deposits with no significant outflow, provided an agreed number of working days' notice period is served.

7 DEPOSIT WITH THE CENTRAL BANK OF OMAN

The deposit represents a capital deposit with the Central Bank of Oman ("CBO") made in accordance with the Banking Law of 1974. The deposit is only repayable if the Company terminates its instalment finance business within the Sultanate of Oman and settles all outstanding obligations and claims arising from that business.

8 INSTALLMENT FINANCE RECEIVABLES

	2019	2018
	RO	RO
Gross investment in finance leases:		
Corporate debtors	**119,728,249**	153,853,637
Retail debtors	**57,404,316**	63,167,013
	177,132,565	217,020,650
Less: unearned finance income	**(16,769,379)**	(20,820,241)
	160,363,186	196,200,409
Less: Provision for ECL, including reserved finance interest	**(6,646,864)**	(6,475,660)
	153,716,322	189,724,749

	2019		2018	
	Gross lease receivable RO	Present value of lease receivables RO	Gross lease receivable RO	Present value of lease receivables RO
Not later than one year	**86,166,140**	**77,848,046**	109,627,421	99,602,088
Later than one year and not later than three years	**69,683,543**	**62,727,665**	79,772,813	70,996,842
Later than three years	**21,282,882**	**19,787,475**	27,620,416	25,601,479
	177,132,565	**160,363,186**	217,020,650	196,200,409

Instalment finance receivables are stated net of accumulated provision for ECL and reserved finance interest. The movement in provision for ECL and reserved finance interest for the year is analysed as follows:

	2019 RO	2018 RO
Provision for ECL of instalment finance receivables:		
At 1 January	**6,291,116**	5,987,920
Provided during the year – instalment receivables	**11,832,874**	5,465,429
Released during the year	**(8,435,339)**	(3,008,829)
Amounts written off	**(3,249,415)**	(2,153,404)
At 31 December	**6,439,236**	6,291,116
Reserved finance interest		
At 1 January	**184,544**	66,944
Reserved during the year	**284,867**	304,188
Released during the year	**(69,392)**	(55,277)
Amounts written off	**(192,391)**	(131,311)
At 31 December	**207,628**	184,544
Total provision for ECL and reserved finance interest	**6,646,864**	6,475,660

8 INSTALLMENT FINANCE RECEIVABLES (continued)

A) The below table shows comparison of provision held as per IFRS 9 and required as per CBO norms:-
31 December 2019

(Amounts in RO'000)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO *norms	Net Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	140,188	-	1,673	(1,673)	140,188	138,515	-	-
	Stage 2	14,577	-	596	(596)	14,577	13,981	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		154,765	-	2,269	(2,269)	154,765	152,496	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,289	215	2,272	(2,057)	2,983	1,017	-	91
Subtotal		3,289	215	2,272	(2,057)	2,983	1,017	-	91
Substand-ard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,617	629	1,743	(1,114)	1,887	874	-	101
Subtotal		2,617	629	1,743	(1,114)	1,887	874	-	101
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-	-
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	442	423	363	60	3	79	-	16
Subtotal		442	423	363	60	3	79	-	16
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	-	-	278	(278)	-	(278)	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	278	(278)	-	(278)	-	-
Total	Stage 1	140,188	-	1,951	(1,951)	140,188	138,237	-	-
	Stage 2	14,577	-	596	(596)	14,577	13,981	-	-
	Stage 3	6,348	1,267	4,378	(3,111)	4,873	1,970	-	208
	Total	161,113	1,267	6,925	(5,658)	159,638	154,188	-	208

8 INSTALLMENT FINANCE RECEIVABLES (continued)

The below table shows comparison of provision held as per IFRS 9 and required as per CBO norms - 31 December 2018

(Amounts in RO'000)

CBO Classifications	IFRS 9 Classification	Gross Amount	CBO Provision	IFRS 9 Provision	Difference between CBO and IFRS 9	Net Amount	Net Amount as per IFRS 9	IFRS Reserve interest	CBO Reserve Interest
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	176,257	-	2,146	(2,146)	176,256	174,111	-	1
	Stage 2	20,070	-	986	(986)	20,070	19,084	-	-
	Stage 3	1	-	1	(1)	1	-	-	-
Subtotal		196,328	-	3,133	(3,133)	196,327	193,195	-	1
Special Mention	Stage 1	83	4	2	2	78	81	-	1
	Stage 2	1,308	77	162	(85)	1,211	1,146	-	20
	Stage 3	2,836	139	1,552	(1,413)	2,617	1,284	-	80
Subtotal		4,227	220	1,716	(1,496)	3,906	2,511	-	101
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	467	115	467	(352)	341	-	-	11
Subtotal		467	115	467	(352)	341	-	-	11
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	910	432	909	(477)	421	1	-	57
Subtotal		910	432	909	(477)	421	1	-	57
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	250	238	250	(12)	(3)	-	-	15
Subtotal		250	238	250	(12)	(3)	-	-	15
Other items not covered under CBO circular BM 977 and related instructions (note 6)	Stage 1	-	-	500	(500)	-	(500)	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	500	(500)	-	(500)	-	-
Total	Stage 1	176,340	4	2,648	(2,644)	176,334	173,692	-	2
	Stage 2	21,378	77	1,148	(1,071)	21,281	20,230	-	20
	Stage 3	4,464	924	3,179	(2,255)	3,377	1,285	-	163
	Total	202,182	1,005	6,975	(5,970)	200,992	195,207	-	185

8 INSTALLMENT FINANCE RECEIVABLES (continued)

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

Restructured loans-2019									(Amounts in RO'000)
Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross Carrying Amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Carrying Amount as per CBO norms***	**Net Carrying Amount as per IFRS 9**	**Interest recognized in P&L as per IFRS 9**	**Reserve interest as per CBO norms**
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1			-	-	-	-		
	Stage 2				-	-	-		
	Stage 3				-	-	-		-
Subtotal		-	-	-	-	-	-	-	-
Classified as non-performing	Stage 1				-	-	-		
	Stage 2	-	-		-	-	-		
	Stage 3	670	112	542	(430)	550	128		8
Sub total		**670**	**112**	**542**	**(430)**	**550**	**128**	-	**8**
Total	**Stage 1**	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	**670**	**112**	**542**	**(430)**	**550**	**128**	-	**8**
	Total	**670**	**112**	**542**	**(430)**	**550**	**128**	-	**8**

Restructured loans-2018

Asset Classification as per CBO Norms	**Asset Classification as per IFRS 9**	**Gross Carrying Amount**	**Provision required as per CBO Norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required and provision held**	**Net Carrying Amount as per CBO norms***	**Net Carrying Amount as per IFRS 9**	**Interest recognized in P&L as per IFRS 9**	**Reserve interest as per CBO norms**
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		-	-	-	-	-	-	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	143	21	17	4	116	126		6
	Stage 3	167	42	167	(125)	124	-		1
Sub total		**310**	**63**	**184**	**(121)**	**240**	**126**	-	**7**
Total	**Stage 1**	-	-	-	-	-	-	-	-
	Stage 2	**143**	**21**	**17**	**4**	**116**	**126**	-	**6**
	Stage 3	**167**	**42**	**167**	**(125)**	**125**	-	-	**1**
	Total	**310**	**63**	**184**	**(121)**	**240**	**126**	-	**7**

8 INSTALLMENT FINANCE RECEIVABLES (continued)

Gross carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019	**176,340,116**	**21,377,961**	**4,464,362**	**202,182,439**
New	**68,935,812**	**2,201,098**	**679,415**	**71,816,325**
Repayment	**(93,473,815)**	**(14,301,196)**	**(1,669,174)**	**(109,444,185)**
Migration	**(11,613,974)**	**5,298,827**	**6,315,147**	**-**
Written off	**-**	**-**	**(3,441,804)**	**(3,441,804)**
As at 31 December 2019	**140,188,139**	**14,576,689**	**6,347,946**	**161,112,775**

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	206,898,491	14,463,812	2,676,329	224,038,632
New	86,484,289	7,766,637	542,439	94,793,365
Repayment	(107,639,339)	(5,958,723)	(766,781)	(114,364,843)
Migration	(9,403,325)	5,106,235	4,297,090	-
Written off	-	-	(2,284,715)	(2,284,715)
As at 31 December 2018	176,340,116	21,377,961	4,464,362	202,182,439

ECL amount	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2019	**2,146,546**	**1,128,693**	**3,015,877**	**6,291,116**
Provided during the year	**3,376,380**	**1,362,850**	**7,093,644**	**11,832,874**
Released during the year	**(3,849,488)**	**(1,895,808)**	**(2,690,043)**	**(8,435,339)**
Written off	**-**	**-**	**(3,249,415)**	**(3,249,415)**
As at 31 December 2019	**1,673,438**	**595,735**	**4,170,063**	**6,439,236**

ECL amount	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	2,588,488	723,103	2,676,329	5,987,920
Provided during the year	1,772,386	1,066,146	2,626,897	5,465,429
Released during the year	(2,214,328)	(660,556)	(133,945)	(3,008,829)
Written off	-	-	(2,153,404)	(2,153,404)
As at 31 December 2018	2,146,546	1,128,693	3,015,877	6,291,116

Instalment finance receivables include amounts advanced to clients, interest on the amounts advanced and related charges. In the event of default in the settlement of debts, the Company has recourse to the client.

Finance interest is reserved by the Company to comply with the rules, regulations and guidelines issued by the Central Bank of Oman against impaired instalment finance receivables.

The instalment finance receivable are denominated in Rial Omani and are charged at an effective annual interest rate of 8.16% (2018: 7.87%). The effective annual interest rate bands of instalment finance receivable are as follows:

	2019	2018
	RO	RO
Less than 10%	**142,300,032**	175,829,435
More than 10%	**18,063,154**	20,370,974
	160,363,186	196,200,409

9. OTHER ASSETS AND PREPAYMENTS

	2019	2018
	RO	RO
Prepaid expenses	197,944	317,357
Other receivables	1,069,255	464,984
	1,267,199	782,341

10 PROPERTY AND EQUIPMENT

	Land and building	Furniture and office equipment	Vehicles	Right of use	Capital/ construction work in progress	Total
	RO	RO	RO	RO	RO	RO
Cost						
1 January 2019	1,262,267	1,295,563	201,309	-	33,113	2,792,252
Effect of adoption of IFRS 16 effective 1 January 2019	-	-	-	81,261	-	81,261
Additions	-	35,903	5,050	-	-	40,953
Disposals	-	(2,998)	(17,145)	-	-	(20,143)
31 December 2019	**1,262,267**	**1,328,468**	**189,214**	**81,261**	**33,113**	**2,894,323**
Depreciation						
1 January 2019	383,776	1,187,280	100,186	-	-	1,671,242
Charge for the year	40,949	49,311	32,219	15,237	-	137,716
Disposals	-	(2,736)	(15,881)	-	-	(18,617)
31 December 2019	**424,725**	**1,233,855**	**116,524**	**15,237**	**-**	**1,790,341**
Net book value						
31 December 2019	**837,542**	**94,613**	**72,690**	**66,024**	**33,113**	**1,103,982**

10 PROPERTY AND EQUIPMENT (continued)

	Land and building	Furniture and office equipment	Vehicles	Capital / Construction work in progress	Total
	RO	RO	RO	RO	RO
Cost					
1 January 2018	1,262,267	1,268,817	367,989	33,113	2,932,186
Additions	-	26,746	17,395	-	44,141
Disposals	-	-	(184,075)	-	(184,075)
31 December 2018	1,262,267	1,295,563	201,309	33,113	2,792,252
Depreciation					
1 January 2018	342,827	1,134,433	250,719	-	1,727,979
Charge for the year	40,949	52,847	33,542	-	127,338
Disposals	-	-	(184,075)	-	(184,075)
31 December 2018	383,776	1,187,280	100,186	-	1,671,242
Net book value					
31 December 2018	878,491	108,283	101,123	33,113	1,121,010

11 SHORT TERM LOANS

	2019	2018
	RO	RO
Short term loans	**69,000,000**	93,100,000

Short term loans obtained from local commercial banks are denominated in Rial Omani and are secured by a registered mortgage over the Company's assets. Short term loans carry interest at average interest rate of 3.59% (2018: 3.26%) per annum.

12 DEPOSITS

No deposits are outstanding from related parties as at 31 December 2019 (2018: nil). Deposits carry interest of 3.25 % to 4% (2018: 4%). The deposits are due to mature within 60 months from the reporting date.

13 TERM LOANS

	Annual interest rate	2019 RO	2018 RO
Long term loans – RO	4.00% to 4.50%	**56,835,579**	58,687,500
Long term loans – US $	3.65% to 4.80%	**33,098,500**	-
		89,934,079	58,687,500

The Company has entered into long term loan facility agreements with local commercial banks and foreign banks. The lenders hold a pari passu charge over all the assets of the Company for the credit facilities granted. In addition, the Company is required to comply with certain financial covenants.

The related maturity profile and interest rate risk are given in notes 27 and 28 respectively.

14 OTHER LIABILITIES

	2019 RO	2018 RO
Accounts payable	**5,555,104**	6,341,609
Accrued expenses and other payables	**3,489,506**	3,309,310
Directors' remuneration (notes 4 and 25)	**31,688**	59,166
Lease liability on adoption of IFRS 16 effective 1 January 2019	**60,816**	-
Employees' end of service benefits	**477,466**	450,140
	9,614,580	10,160,225

During the year 2019, unclaimed dividend and unclaimed bond interest in the amount of RO.722 (2018: RO 3,882) has been transferred to Investors Trust Fund with Capital Market Authority.

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

	2019 RO	2018 RO
At 1 January	**450,140**	400,958
Provided during the year (note 4)	**71,851**	78,167
Paid during the year	**(44,525)**	(28,985)
At 31 December	**477,466**	450,140

During the current year, the Company made partial payment of end of service benefits of certain employees based on approval of Board of Directors.

14 OTHER LIABILITIES (continued)

The movement in the lease liability on adoption of IFRS 16 effective 1 January 2019:

	2019 RO
At 1 January	**81,261**
Accretion of interest	**2,775**
Paid during the year	**(23,220)**
At 31 December	**60,816**

Contingent liabilities

At 31 December 2019, there were contingent liabilities of RO 749,589 (2018: RO 5,982,029) in respect of guarantees issued in the normal course of business on behalf of customers from which it is anticipated that no material liabilities will arise.

15 SHARE CAPITAL

	2019 RO	2018 RO
Authorised - shares of RO 0.100 each	**30,000,000**	30,000,000
Issued and fully paid - shares of RO 0.100 each	**29,193,517**	28,562,447

The share capital as of 31 December 2019 is as per the regulatory capital requirement.

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

	2019 % Of holding	2019 Number of shares	2018 % of holding	2018 Number of shares
Muscat Overseas Company LLC	**18.11%**	**52,871,825**	18.11%	51,730,913
Civil Service Employees Pension Fund	**10.40%**	**30,364,514**	10.48%	29,922,164
Ministry of Defence Pension Fund	**6.05%**	**17,670,324**	10.49%	29,963,024

16 SHARE PREMIUM RESERVE

During the year, shareholders at the Annual General Meeting approved an issuance of 14,281,224 compulsorily convertible bonus bonds of RO 0.100 each (2018: 8,303,720 of RO 0.100 each) by utilising the share premium reserve account (note 19). Further, during the year an amount of RO 597,308 has been transferred to share premium account on the conversion of compulsorily convertible bonus stock bonds issued in 2016 into equity shares. In addition, an amount of RO 210,357 (2018: RO 294,460) has been transferred to legal reserve from the share premium account.

17 LEGAL RESERVE

Article 106 of the Commercial Companies Law 1974 requires that 10% of the profit for the year be transferred to the legal reserve. At 31 December 2019, the Company has transferred RO 210,357 (2018: RO 294,460) to legal reserve from the share premium account to make the legal reserve equal to one third of the issued share capital on the reporting date. The reserve is not available for distribution.

18 EXCHANGE RESERVE

The exchange reserve has been created in accordance with the directives of the Central Bank of Oman via circular FM 11 ("the Circular") dated 31 March 2003 in respect of un-hedged long-term foreign currency loans. In accordance with the requirements of the Circular, 20% exchange reserve shall be created against any foreign currency borrowings which exceeds 40% of the net worth as per the previous financial year audited financial statements. 10% of this exchange reserve shall be created at the end of the year of the borrowing and 2.5% in each subsequent years. This reserve is not available for distribution.

Accordingly the company has transferred RO 523,316 to exchange reserve from retained earnings.

19 DIVIDENDS PAID AND PROPOSED

Dividend is not accounted for until it has been approved at the Annual General Meeting. At the meeting on 27 January 2020, the Board of Directors proposed a dividend of 14.50% of the paid up capital of the Company comprising a cash dividend of 10.5% and 4% compulsorily convertible unsecured bonus stock bonds. Subsequently, CBO has approved a dividend of 11.05% of the paid up capital of the company comprising cash dividend of 7.05% (RO 0.00705 per ordinary share) amounting to RO 2,058,142.956 and 4% compulsorily convertible unsecured bonus stock bonds totalling to 11,677,407 bonds of RO 0.100 each amounting to RO 1,167,741. This will be submitted for the formal approval at the Annual General Meeting of the Company to be held in March 2020. These bonus stock bonds will carry an annual coupon rate of 4%, payable annually. The interest will be calculated on the basis of 365 days per year on the nominal value of the bonus stock bond. These bonus stock bonds will be unsecured and listed on the Muscat Securities Market (MSM).

The bonus stock bonds will be compulsorily converted into specific number of equity shares at the end of 84 months from the date of listing at 80% of the weighted average closing price of the Company's equity traded on the MSM over the preceding three months prior to the record date of such conversion, subject to a minimum 85% of the book value as per the audited accounts of the Company for the immediately preceding financial year of the Company. A cash dividend of 11.28% amounting to RO 3,221,844.044, and 5% compulsorily convertible bonus bonds amounting to RO 1,428,122 were approved at the Annual General Meeting held in March 2019, and subsequently cash dividend was paid and compulsorily convertible bonus bonds were issued to the shareholders.

20 COMPULSORILY CONVERTIBLE BONDS

		2019	2018
		RO	RO
Compulsorily convertible bonus bonds – 2015	(i)	**-**	1,228,378
Compulsorily convertible bonus bonds – 2016	(ii)	**2,142,908**	2,142,908
Compulsorily convertible bonus bonds – 2017	(iii)	**830,372**	830,372
Compulsorily convertible bonus bonds – 2018	(iv)	**1,428,122**	-
		4,401,402	4,201,658

20 COMPULSORILY CONVERTIBLE BONDS (continued)

i) In March 2016, the shareholders at the AGM approved 5% compulsorily convertible unsecured bonus stock bonds totaling to 12,283,776 bonds of RO 0.100 each amounting to RO 1,228,378. These bonus stock bonds carry an annual coupon rate of 4% payable semi annually. During the current period, the above bonus stock bonds were converted into equity shares at 85% of the book value, i.e 0.19465, being the minimum value.

ii) In March 2017, the shareholders at the AGM approved 8% compulsorily convertible unsecured bonus stock bonds totaling to 21,429,083 bonds of RO 0.100 each amounting to RO 2,142,908. These bonus stock bonds will carry an annual coupon rate of 4%, payable semi annually. The bonus stock bonds will be compulsorily converted into specific number of equity shares at the end of 60 months in a manner explained in note (v).

iii) In March 2018, the shareholders at the AGM approved 3% compulsorily convertible unsecured bonus stock bonds totalling to 8,303,720 bonds of RO 0.100 each amounting to RO 830,372. These bonus stock bonds will carry an annual coupon rate of 4%, payable semi-annually. The bonus stock bonds will be compulsorily converted into specific number of equity shares at the end of 60 months in a manner explained in note (v).

(iv) In March 2019, the shareholders at the AGM approved 5% compulsorily convertible unsecured bonus stock bonds totalling to 14,281,224 bonds of RO 0.100 each amounting to RO 1,428,122. These bonus stock bonds will carry an annual coupon rate of 4%, payable annually. The bonus stock bonds will be compulsorily converted into specific number of equity shares at the end of 60 months in a manner explained in note (v).

v) The interest is calculated on the basis of 365 days per year on the nominal value of the bond. These bonds are unsecured and listed on the MSM. The bonds will be converted into specific number of shares from the date of listing at 80% of the weighted average closing price of the Company's traded equity shares on the MSM over the preceding three months prior to the record date of such conversion, subject to a minimum 85% of the book value as per the audited accounts of the Company for the immediately preceding financial year of the Company.

vi) As approved by the regulatory authority, the unsecured fully compulsorily convertible bonds amounting to RO 4,401,402 (2018: RO 4,201,658) are treated as part of the Company's net worth for computing all regulatory limits. Accordingly, the net worth of the Company as of 31 December 2019 for all regulatory purposes is RO 69,871,247 (2018: RO 69,663,341).

21 BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2019	2018
	RO	RO
Profit for the year (RO)	**3,429,750**	4,026,676
Weighted average number of shares outstanding during the year (Nos)	**289,831,603**	282,679,870
Basic earnings per share (RO)	**0.012**	0.014

22 DILUTED EARNINGS PER SHARE

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company (after adjusting interest on the convertible bonds, net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	2019	2018
	RO	RO
Profit after tax	3,429,750	4,026,676
Add: Interest on bonds (net)	148,282	157,615
Profit attributable to ordinary shareholders (diluted) (RO)	3,578,032	4,184,291
Weighted average number of ordinary shares (diluted) (Nos)	314,547,049	306,659,055
Diluted earnings per share (RO)	0.011	0.014

23. SPECIAL RESERVE FOR NON-PERFORMING ASSETS.

This special reserve is created specifically for non-performing assets to meet out any contingencies. This reserve is non distributable and transfer out of this reserve require approval of Board of Directors.

24 SEGMENT INFORMATION

The Company operates in the finance industry and its operations are confined to the Sultanate of Oman. Detail regarding the Company's corporate and retail loans are included in note 8. None of the Company's single customer contributed more than 10% of its instalment finance income.

The Chief Operating Decision Maker considers the business of the Company as one operating segment and monitors only revenue and provision for expected credit loss for the corporate and retail segment.

25 RELATED PARTY TRANSACTIONS

The Company has entered into transactions in the ordinary course of business with major shareholders and other related parties in which certain directors have a significant influence. Pricing policies and the terms of the transactions are approved by the Company's board of directors and are considered by mutually agreed terms and are consistent with the standard terms applied by the Company.

Transactions with related parties or holders of 10% or more of the Company's shares or their family members, included in the statement of comprehensive income are as follows:

	2019	2018
	RO	RO
Instalment finance income (major shareholder)	69,902	65,200
Directors' sitting fees and remuneration	103,688	136,766
Employee's related cost of senior management	1,645,228	1,641,982

Details of Directors' remuneration and sitting fee are disclosed in notes 4 and 14.

25 RELATED PARTY TRANSACTIONS (continued)

Outstanding balances at the year-end arise in the normal course of business. Amounts due from related parties are not impaired and are estimated to be collectible based on the past experience.

At 31 December 2019, the following balances were outstanding of related parties or holders of 10% or more of the Company's shares:

	2019		2018	
	Receivables	**Payables**	Receivables	Payables
	RO	**RO**	RO	RO
Members of the Board of Directors	**1,364,816**	**31,688**	980,307	59,166
	1,364,816	**31,688**	980,307	59,166

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

It is the Company's intention to hold instalment finance receivables till maturity. As a result, the fair value of performing instalment finance receivables is arrived at by using the discounted cash flow method based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The Company's short term loans are at variable rates of interests and long term loans are repriced on annual basis. The Company considers that the fair value of financial instruments at 31 December 2019 and 2018 are not significantly different to their carrying value at each of those dates.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2019 and 2018, the Company had no financial instruments which were recorded at fair values.

27 MATURITY PROFILE OF THE ASSETS AND LIABILITIES

The table below analyses the Company's assets, liabilities and equity into relevant maturity groupimgs based on the remaining period at the reporting date to the contractual maturity date. The maturity profile as of 31 December 2019 was as follows:

	Up to 1 month	2 to 3 months	4 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Non-fixed maturity	Total
	RO	RO	RO	RO	RO	RO	RO	RO
Assets								
Cash and bank balances	62,429,557	15,000,000	10,000,000	-	-	-	-	87,429,557
Deposits with CBO	-	-	-	-	-	-	250,000	250,000
Instalment finance receivable	21,655,341	6,769,982	15,813,876	27,183,517	62,727,666	19,565,940	-	153,716,322
Other assets and prepayments	844,144	239,244	60,041	123,770	-	-	-	1,267,199
Property and equipment	-	-	-	-	-	-	1,103,982	1,103,982
Total assets	84,929,042	22,009,226	25,873,917	27,307,287	62,727,666	19,565,940	1,353,982	243,767,060
Liabilities and equity								
Short term loans	15,100,000	43,900,000	10,000,000	-	-	-	-	69,000,000
Deposits	-	728,243	-	-	3,500,000	-	-	4,228,243
Term loans	230,769	461,538	15,143,272	29,848,500	44,250,000	-	-	89,934,079
Compulsorily convertible bonds	-	-	-	-	2,973,280	1,428,122	-	4,401,402
Other liabilities	1,673,207	1,897,554	606,048	624,050	3,426,107	1,387,614	-	9,614,580
Income tax payable	1,118,911	-	-	-	-	-	-	1,118,911
Equity	-	-	-	-	-	-	65,469,845	65,469,845
Total liabilities and equity	18,122,887	46,987,335	25,749,320	30,472,550	54,149,387	2,815,736	65,469,845	243,767,060
Gap in maturity	66,806,155	(24,978,109)	124,597	(3,165,263)	8,578,279	16,750,204	(64,115,863)	
Cumulative gap in maturity	66,806,155	41,828,046	41,952,643	38,787,380	47,365,659	64,115,863		

27 MATURITY PROFILE OF THE ASSETS AND LIABILITIES (continued)

The table below analyses the Company's assets, liabilities and equity into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The maturity profile as of 31 December 2018 was as follows:

	Up to 1 month RO	2 to 3 months RO	4 to 6 months RO	6 months to 1 year RO	1 to 3 years RO	Over 3 years RO	Non-fixed maturity RO	Total RO
Assets								
Cash and bank balances	43,992,148	-	-	-	-	-	-	43,992,148
Deposits with CBO	-	-	-	-	-	-	250,000	250,000
Instalment finance receivable	28,375,766	14,373,546	20,301,837	36,044,998	70,996,842	19,631,760	-	189,724,749
Other assets and prepayments	275,690	64,887	70,388	64,472	306,904	-	-	782,341
Property and equipment	-	-	-	-	-	-	1,121,010	1,121,010
Deferred tax asset	-	-	-	-	-	-	364,305	364,305
Total assets	72,643,604	14,438,433	20,372,225	36,109,470	71,303,746	19,631,760	1,735,315	236,234,553
Liabilities and equity								
Short term loans	15,000,000	42,600,000	35,500,000	-	-	-	-	93,100,000
Deposits	-	-	-	-	2,000,000	1,500,000	-	3,500,000
Term loans	-	24,937,500	1,250,000	15,500,000	17,000,000	-	-	58,687,500
Compulsorily convertible bonds	-	-	1,228,378	-	-	2,973,280	-	4,201,658
Other liabilities	2,799,930	1,749,576	524,124	698,340	2,635,978	1,752,277	-	10,160,225
Income tax payable	1,123,487	-	-	-	-	-	-	1,123,487
Equity	-	-	-	-	-	-	65,461,683	65,461,683
Total liabilities and equity	18,923,417	69,287,076	38,502,502	16,198,340	21,635,978	6,225,557	65,461,683	236,234,553
Gap in maturity	53,720,187	(54,848,643)	(18,130,277)	19,911,130	49,667,768	13,406,203	(63,726,368)	
Cumulative gap in maturity	53,720,187	(1,128,456)	(19,258,733)	652,39	50,320,165	63,726,368		

28 INTEREST RATE RISK

The interest rate charged and paid by the Company are similar to the prevailing market interest rates. The Company's interest rate sensitivity position, based on the contractual re-pricing at 31 December 2019 is set out below:

	Floating rate or within three months	4 to 6 months	6 months to one year	1 to 3 years	Over 3 years	Non interest sensitive	Total
	RO	RO	RO	RO	RO	RO	RO
Assets							
Cash and bank balances including deposit with central bank	77,407,914	10,000,000	-	-	250,000	21,643	87,679,557
Instalment finance receivable	58,259,631	9,851,222	20,366,672	49,397,479	15,841,318	-	153,716,322
Other assets and prepayments	-	-	-	-	-	1,267,199	1,267,199
Property and equipment	-	-	-	-	-	1,103,982	1,103,982
Total assets	135,667,545	19,851,222	20,366,672	49,397,479	16,091,318	2,392,824	243,767,060
Liabilities and equity							
Short term loans	59,000,000	10,000,000	-	-	-	-	69,000,000
Deposits	728,243			3,500,000	-	-	4,228,243
Term loans	692,307	15,143,272	29,848,500	44,250,000	-	-	89,934,079
Compulsorily convertible bonds	-	-		2,973,280	1,428,122	-	4,401,402
Other liabilities	-	-	-	-	-	9,614,580	9,614,580
Income tax payable	-	-	-	-	-	1,118,911	1,118,911
Equity	-	-	-	-	-	65,469,845	65,469,845
Total liabilities and equity	60,420,550	25,143,272	29,848,500	50,723,280	1,428,122	76,203,336	243,767,060
Interest rate sensitivity gap	75,246,995	(5,292,050)	(9,481,828)	(1,325,801)	14,663,196	(73,810,512)	
Cumulative interest rate sensitivity gap	75,246,995	69,954,945	60,473,117	59,147,316	73,810,512		

28 INTEREST RATE RISK (continued)

The Company's interest sensitivity position based on contractual repricing arrangements at 31 December 2018 is as follows:

	Floating rate or within three months	4 to 6 months	6 months to one year	1 to 3 years	Over 3 years	Non interest sensitive	Total
	RO	RO	RO	RO	RO	RO	RO
Assets							
Cash and bank balances including deposit with central bank	43,940,569	-	-	-	250,000	51,579	44,242,148
Instalment finance receivable	76,192,674	13,063,170	25,995,542	60,605,566	13,867,797	-	189,724,749
Other assets and prepayments	-	-	-	-	-	782,341	782,341
Property and equipment	-	-	-	-	-	1,121,010	1,121,010
Deferred tax asset	-	-	-	-	-	364,305	364,305
Total assets	120,133,243	13,063,170	25,995,542	60,605,566	14,117,797	2,319,235	236,234,553
Liabilities and equity							
Short term loans	57,600,000	35,500,000	-	-	-	-	93,100,000
Deposits	-	-	-	2,000,000	1,500,000	-	3,500,000
Term loans	24,937,500	1,250,000	15,500,000	17,000,000	-	-	58,687,500
Compulsorily convertible bonds	-	1,228,378	-	-	2,973,280	-	4,201,658
Other liabilities	-	-	-	-	-	10,160,225	10,160,225
Income tax payable	-	-	-	-	-	1,123,487	1,123,487
Equity	-	-	-	-	-	65,461,683	65,461,683
Total liabilities and equity	82,537,500	37,978,378	15,500,000	19,000,000	4,473,280	76,745,395	236,234,553
Interest rate sensitivity gap	37,595,743	(24,915,208)	10,495,542	41,605,566	9,644,517	(74,426,160)	
Cumulative interest rate sensitivity gap	37,595,743	12,680,535	23,176,077	64,781,643	74,426,160		

29 FINANCIAL RISK MANAGEMENT

The primary objective of the risk management system is to safeguard the Company's capital, its financial resources and from various risks. The Company has exposure to the following risk from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors have overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the policies and procedures and internal checks and balances to keep the risk at an acceptable level.

(a) 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. The Company manages credit risk by setting limits for individual borrowers, monitoring credit exposures, limiting transactions with specific counter parties and assessing continually the creditworthiness of counter parties. In addition, the Company obtains security where appropriate, enters into collateral arrangements with counter parties, and limits the duration of the exposures.

29 FINANCIAL RISK MANAGEMENT (continued)

Exposure to credit before collateral held or other credit enhancements
The credit exposure of the Company at 31 December is as follows:

	2019	2018
	RO	RO
Bank balances	685,879	7,440,069
Deposit with CBO and commercial banks - net	86,722,035	36,750,500
Instalment finance receivables – net	153,716,322	189,724,749
Other receivables	-	18,752
Credit risk exposure relating to off balance sheet items		
Approved lease commitment at 31 December	482,090	744,979
Total exposure	241,606,326	234,679,049
Classification of instalment finance receivables as per CBO norms		
Instalment finance debtors		
Past due 1 - 89 days but not impaired	5,767,380	9,543,403
Impaired		
Past due 90 – 179 days	2,646,891	2,811,055
Past due 90 – 179 days due to adoption of BM 977.	642,453	1,415,527
Past due 180 –269 days	2,392,665	466,954
Past due 180 – 269 days due to adoption of BM 977.	224,396	-
Past due 270 –364 days	-	909,967
Past due > 364 days	441,720	250,175
	6,348,125	5,853,678
Neither past due nor impaired	148,247,681	180,803,328
Total instalment finance debtors	160,363,186	196,200,409

29 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Classification of instalment finance receivables (continued)	**2019 RO**	2018 RO
Less: provision for ECL:		
Specific as per IFRS 9 including reserved finance interest	**(6,646,864)**	(6,475,660)
Total allowance for expected credit loss	**(6,646,864)**	(6,475,660)
Instalment finance receivables	**153,716,322**	189,724,749

Rescheduled loans as of 31 December 2019 amounted to RO 669,835 (2018: RO 310,128).

Classification of instalment finance receivables as per IFRS 9 including guarantees		
Instalment finance debtors		
	2019 RO	2018 RO
Stage -1	**140,188,139**	176,340,116
Stage -2.	**14,576,690**	21,377,961
Stage -3	**6,347,946**	4,464,362
	161,112,775	202,182,439
Less:- provision for expected credit loss:	**(6,646,864)**	(6,475,660)
Instalment finance receivables	**154,465,911**	195,706,778

29 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties 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 indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location. There is no significant industry concentration. Concentration of risk is managed by client/counterparty and by industry sector exposures. There is no significant credit exposure relating to instalment finance receivable to any single counterparty as at 31 December 2019 and 2018. An industry sector analysis of the Company's instalment finance receivable – net before taking into account collateral held is as follows:

	Maximum exposure 2019 RO'000	Maximum exposure 2018 RO'000
Personal loans	**48,074**	52,903
Business loans - Services and other sectors	**43,088**	58,245
- Construction	**9,292**	21,444
- Trading	**38,392**	33,854
- Manufacturing	**21,517**	29,754
	160,363	196,200

Delinquency risk
Delinquency risk refers to instalment finance receivables and other credit exposures that have become non-performing during the period of the credit term. An instalment finance receivables is considered impaired when, in the management's opinion, it can no longer be reasonably assured that it will be able to collect the full amount of principal and interest when due.

The Company treats an instalment finance receivables as non-performing as per the established norms of the Central Bank of Oman and creates specific ECL allowances individually based on the regulatory guidelines. The Company as per International Financial Reporting Standard establishes specific allowances for all impaired instalment finance receivables when the estimated value of the instalment finance receivables is less than its recorded value, based on discounting of expected future cash flows. In addition collective provision is also created. The Company writes off an instalment finance receivables, when it determines that the instalment finance receivables is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the customer's financial position such that the borrower can no longer pay the obligation, or proceeds from the sale of the asset or collateral security will not be sufficient to pay back the entire exposure. Upon approval from the Board of Directors, the amount is written off.

29 FINANCIAL RISK MANAGEMENT (continued)

Collateral securities

The Company holds collateral securities against the instalment finance debtor in the form of mortgage interests over property. Estimate of fair value are based on the value of the collateral assessed at the time of borrowing, except when an instalment finance receivable is individually assessed as impaired. The fair value of the collateral considered is restricted to a maximum amount of secured instalment finance receivable. At 31 December 2019, the ECL losses would have not changed significantly had the collaterals not been obtained by the Company for impaired assets.

Settlement risk

The settlement risk is the risk of loss due to the failure of a Company to honour its obligations to deliver cash, securities or other assets as contractually agreed. To avoid settlement risks, the Company ensures that all control systems are in place to keep the errors to a minimum.

Impairment assessment

Definition of default

IFRS 9 does not define the term default. As per the CBO guidelines default happens when the financial asset is 90 days past due. For IFRS 9 purposes the loan is in default when a financial asset is 90 days past due. There is a rebuttable presumption that the credit risk of the loan has increased significantly when the contractual payments are more than 30 days due. Cross default has been applied in the IFRS 9 model. If a customer has multiple loans, default in one loan would automatically classify all the other loans of the customer in the same higher category.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Company formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

The Company's internal rating and PD estimation process

The company has internal risk rating modules which it applies to all corporate customers whose comprehensive credit limit facility is in excess of RO 250,000/-. The internal risk ratings model used by the company is quite comprehensive and gives appropriate weightage to qualitative, quantitative and security aspects. The model has been in use for almost 6 years and has proved effective so far. Due to the non availability of data for bench marking and due to diverse nature of the industry and client, the internal ratings are not mapped to the external ratings.

For other corporate clients, where detailed risk rating model is not deployed, risk grading has been done based on the same parameters subject to availability of data and on judgement. Accordingly risk classification and appropriate risk scores are assigned.
The internal risk ratings serves as a parameter for the development of base probability of default for the corporate segment where the customers have comprehensive credit limits.

Generating the term structure of Probability of Default (PD)

The point in time probability of default is derived based on the loan amount to default loans and also on the count of bad loans to the total loans. Based on the survival rate, the marginal PD is calculated for the months and weighted average of marginal PD is computed and the life time PD (LTPD) is derived. Then all the monthly weighted average PD and LTPD are averaged for the individual years and averaged collectively for the data period for each - group of retail portfolio.

29 FINANCIAL RISK MANAGEMENT (continued)

Generating the term structure of Probability of Default (PD) (continued)

The loans are categorized in stages as per the staging criteria and based on the balance tenure the respective point in time PD is applied with respect to the particular grouping the customer falls in. Further the PD may be escalated across different stages to adjust the probability of default for forward looking macro-economic conditions in the country.

The base PD is derived on the risk score of Internal credit rating model for corporate customers with exposure of RO 250 K and above and the PD is adjusted to current qualitative and quantitative parameters available and the PD is further escalated and adjusted to forward looking PD by utilizing macroeconomic variables.

The base PD is derived on the risk score of abridged Internal credit rating model for corporate customers with exposure of RO 100 K and above up to RO 250 K and the PD is adjusted to current qualitative and quantitative parameters available and the PD is further escalated and adjusted to forward looking PD by utilizing macroeconomic variables.

Economic variable assumptions

Exposure at default

This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected draw downs on committed facilities. This is the principal loan amounts outstanding at any point in time.

Loss given default
Loss Given Default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

Significant Increase in Credit Risk

a. Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Company's historical experience and forward-looking information in addition to qualitative criteria as prescribed by Central Bank of Oman vide circular BM1149 dated 13th April 2017
b. There is a rebuttable presumption that there is a significant increase in credit risk when the contractual payments are more than 30 days due for all loans. The significant increase in risk is applied at the obligor level.

(b) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. The business of lending has an inherent risk of liquidity arising from the mismatch of tenure of funds borrowed vis-à-vis lent, in addition to unforeseen adverse recovery patterns.

29 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

The Company is constantly on the vigil and judiciously manages the funds with a mix of borrowing instruments. Liabilities are contracted and structured based on the behavioral pattern of the assets in terms of maturity and re-pricing structure. To limit the liquidity risk, the management through its carefully drawn up strategies, has diversified sources of funds, avoids undue concentration on a single lender and manages its collection in a systematic manner.

During the year, the Company completed medium to long term funding arrangements that have effectively addressed and mitigated the apparent mismatch in the maturity of assets and liabilities. Cash flows are monitored continuously and appropriate steps are taken to set right mismatches if any, to address the liquidity risk.

Residual contractual maturities of financial liabilities
The table below summarizes the maturity profile of the Company's liabilities as at 31 December 2019 based on contractual repayment arrangements. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and after taking into account of the effective maturities as indicated by the Company's deposit retention history and the availability of liquid funds.

	Carrying amount RO	**Gross nominal outflow RO**	**Within 3 months RO**	**3 - 12 months RO**	**Over 1 year RO**
Short term loans	**69,000,000**	**69,393,233**	**59,292,412**	**10,100,821**	**-**
Deposits	**4,228,243**	**4,929,230**	**1,129,832**	**-**	**3,799,398**
Term loans	**89,934,079**	**93,147,441**	**696,733**	**46,138,907**	**46,311,801**
Compulsory Convertible Bonds	**4,401,402**	**5,060,428**	**-**	**176,056**	**4,884,372**
Other liabilities	**9,614,580**	**9,614,580**	**3,570,761**	**1,230,098**	**4,813,721**
Total	**177,178,304**	**182,144,912**	**64,689,738**	**57,645,882**	**59,809,292**

The maturity profile of assets, liabilities and equity is set out in note 27.

Residual contractual maturities of financial liabilities as of 31 December 2018:

	Carrying amount RO	Gross nominal outflow RO	Within 3 months RO	3 - 12 months RO	Over 1 year RO
Short term loans	93,100,000	93,687,146	57,811,680	35,875,466	-
Deposits	3,500,000	4,200,987	-	-	4,200,987
Term loans	58,687,500	60,360,211	25,153,307	17,311,644	17,895,260
Compulsory Convertible Bonds	4,201,658	4,659,092	-	1,371,876	3,287,216
Other liabilities	10,160,225	10,160,225	4,549,505	1,222,464	4,388,256
Total	169,649,383	173,067,661	87,514,492	55,781,450	29,771,719

29 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices and foreign exchange 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.

(d) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability of the fair values of financial instruments. The Company is exposed to interest rate risk as a result of mismatches of interest rate, repricing of assets and liabilities and unfunded instruments that mature or re-price in a given period. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

Revision in the interest rates by the existing lenders and changes in the interest rates consequent to economic forces is a risk faced by any financial institution. Though the Company's loan portfolio comprises predominantly of fixed interest rates, the Company manages its treasury in such a way that the targeted margin is maintained and the risk is kept within acceptable levels.

The following table shows the sensitivity to the Company's net interest income that would result out of a possible change in interest rates

		Sensitivity to net interest / income (RO `000)	
Change in interest rate	**Change in basis points**	**2019**	**2018**
Increase in interest rate	+100 bps	(1,358)	(1,518)
Increase in interest rate	+150 bps	(2,038)	(2,277)
Decrease in interest rate	- 25 bps	340	379

(e) Operational risk

The Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and are faced by all business entities.

The Company has put in place the mechanism to minimise operational risk by way of effective internal control systems, systems review and an on-going internal audit programme. The internal auditors of the Company undertake comprehensive audits and report directly to the Audit Committee of the Board. The Audit Committee of the Board review the internal audit reports, the adequacy of the internal controls and report on the same to the Board.

29 FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management

The Company's primary objective of capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it in the light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2019 and 31 December 2018.

The Company's lead regulator Central Bank of Oman sets and monitors capital requirement as a whole. The current capital requirement as per the Central Bank of Oman is RO.25 Million. The Company's current paid up capital is RO 29,193,517 at the current period ending. The company has already achieved the capital requirement set out by CBO.

(g) Currency risk

As approved by the regulatory authority and more fully explained in note 20, the unsecured fully compulsorily convertible bonds are treated as part of the net worth for computing all regulatory limits.

Accordingly, the net worth as of 31 December 2019 for all regulatory purposes is RO 69,871,247 (2018: RO 69,663,341).

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's assets are denominated in Rial Omani and hence there is no currency risk. The foreign currency loans are denominated in US Dollar which is effectively pegged to Rial Omani.

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