United Finance Company SAOG

ANNUAL REPORT 2015

His Majesty Sultan Qaboos bin Said

Contents

Our Belief

- To live is to grow.
- To dream big, is to look into the future.
- To be even, our smallest client is also our biggest asset.
- Because, the more you achieve, the more we achieve.
- The more you grow the more we grow.
- And the more you succeed, the more we succeed.
- To be the best finance company, is also to be your best friend.
- To be a professional is to be a believer.
- We believe that goals are only there, to be surpassed.
- That tomorrow is ours, and today as well.
- We believe in you, and in us.
- We believe in growth for all.

Vision

To be consistently the first choice and the best finance company for our stakeholders and the community

Mission

To create “Growth for all” by

Providing timely and customized financial solutions to individuals, corporates and SMEs

Enabling our employees to actualize

Partnering with our business associates for mutual growth

Being a responsible corporate citizen

Values

Commitment

Discipline

Teamwork

Timeliness

Empowerment

Board of Directors

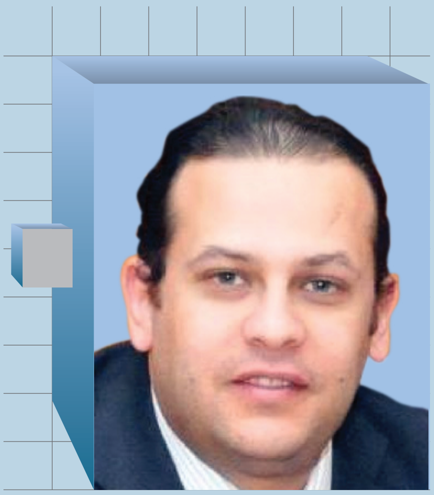
Sulaiman Ahmed Al Hoqani
Chairman

Hassan Ihsan Naseeb Al Nasib
Deputy Chairman

Mohamed Abdulla Mohamed Al Khonji
Director

Ranga Gorur
Director

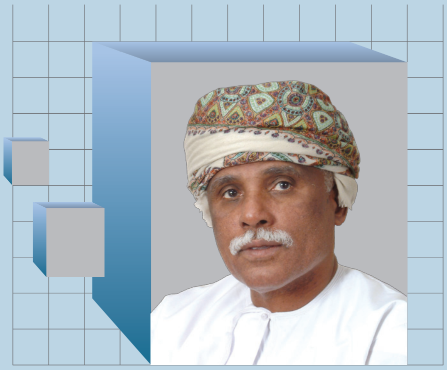
Hussam Hisham Omar Bostami
Director



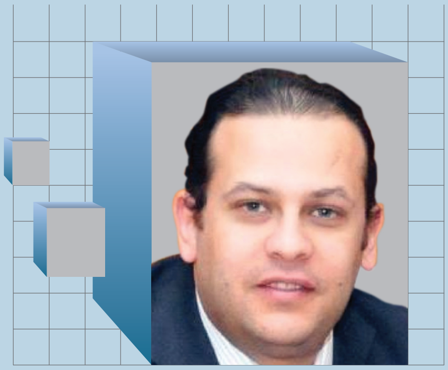
Waseem Salah Qaraeen
Director

Audit Committee

Mohamed Abdulla Mohamed Al Khonji
Chairman

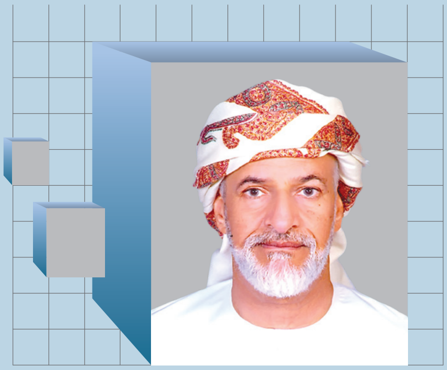


Hassan Ihsan Naseeb Al Nasib
Member

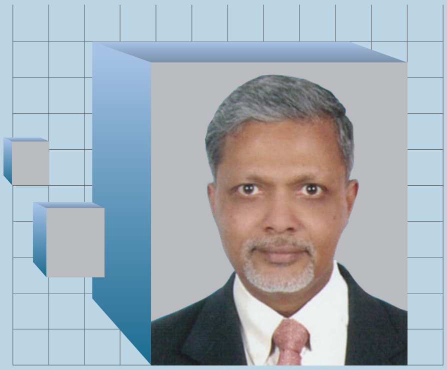


Waseem Salah Qaraeen
Member

Credit Committee



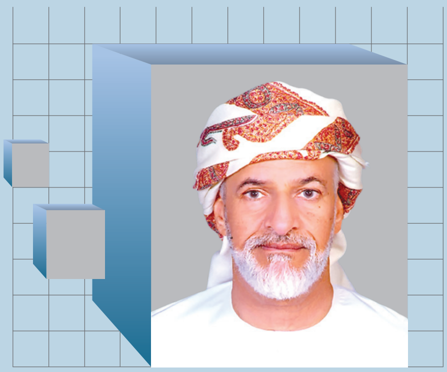
Sulaiman Ahmed Al Hoqani
Chairman



Ranga Gorur
Member

Hussam Hisham Omar Bostami
Member

Risk Committee



Sulaiman Ahmed Al Hoqani
Chairman

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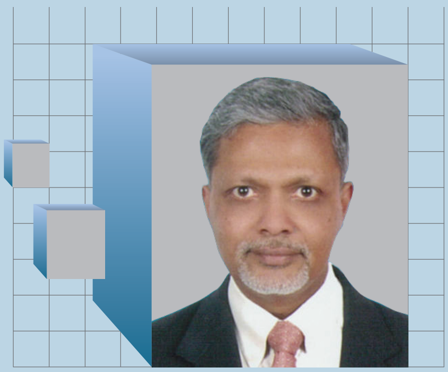
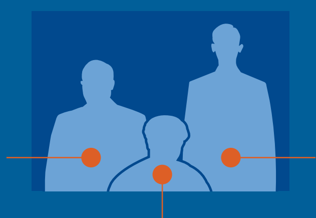
Member



Ranga Gorur
Member

Management Team

D Stanley
Deputy Chief Executive Officer



K T Ramasamy
AGM - Finance & IT

Mansoor Mubarak Al Amri
Chief Executive Officer

Head Office

P.O. Box 3652, P.C.112, Ruwi
E-mail: ufc@ufcoman.com,
Website: www.ufcoman.com
Tel: 24577300, Fax: 24561557

Branches

Branch	Tel.	Fax.
Barka	26883996	26883931
Firq	25410052	25410595
Ibra	25570234	25570235
Ibri	25692402	25688668
Mawaleh	24520611	24520613
Salalah	23289668	23289446
Sohar	26843603	26843650

Bankers

Bank Muscat	Bank of Baroda
National Bank of Oman	Qatar National Bank
Bank Dhofar	Ahli Bank
Bank Sohar	Ahli United Bank, Bahrain
Oman Arab Bank	

Statutory Auditors

Ernst & Young

Board of Directors' Report

Sulaiman Ahmed Al Hoqani
Chairman

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present to you the audited financial results of your company for the year ended 31st December 2015.

The Economic Environment

Oman economy registered a modest growth during 2015 despite the sluggish market conditions that prevailed in the region as a result of the steep decline in oil prices during year. The government pursued the infrastructure and developmental projects as planned in spite of the significant drop in oil revenues. The consistent spending on developmental projects aided in insulating the economy from the impact of the volatile market conditions across the region and world over and fostering economic growth. Further, the government's drive to diversify into non-oil segments to balance its revenue streams was complemented by private sector investment and participation in the development of tourism and real estate projects. These initiatives helped in providing avenues for expansion of business and opportunities for growth.

During 2015 the market witnessed the entry of banks into the SME and Vehicle financing segment carving a niche of the market which was hitherto the domain of FLCs. This reduced the market share of FLCs and triggered increased competition amongst them. This highly competitive environment resulted in the narrowing down of net interest margins. The last quarter of the year also witnessed a tightening of liquidity, resulting in an upward movement of interest rates, putting more pressure on income spreads. The market also witnessed a situation of delayed receipt of dues by small and medium contractors from their counter parties thus straining their cash flows and resulting in their inability to meet their loan obligations on time.

The year under review

During 2015 your Company had another successful year of operations and registered modest growth despite the volatile and competitive market conditions. The company recorded a net profit of RO 5.24M for the year 2015 as against RO 4.96M for the previous year, registering a year-on-year growth of 6%. The growth in profitability was achieved despite the highly competitive market conditions and decline in lending rates. The loan book grew marginally from RO 114.7M as at 31st Dec. 2014 to RO 118.5M as at 31st Dec. 2015. The marginal growth in the loan portfolio is attributed to the competitive market and foreclosure of loans. Our concerted efforts on the recovery front aided in reducing impaired assets from RO 15.7M as at 31st Dec. 2014 to RO 11.00M as at 31st Dec. 2015.

The company holds a cumulative provision of RO 5.63M as at Dec. 2015 and a Special Reserve of RO 2.37M to guard against delinquencies from unforeseen quarters. The Management has initiated necessary recovery measures to improve collection efficiency and is confident of reduction in impaired loans in the coming year.

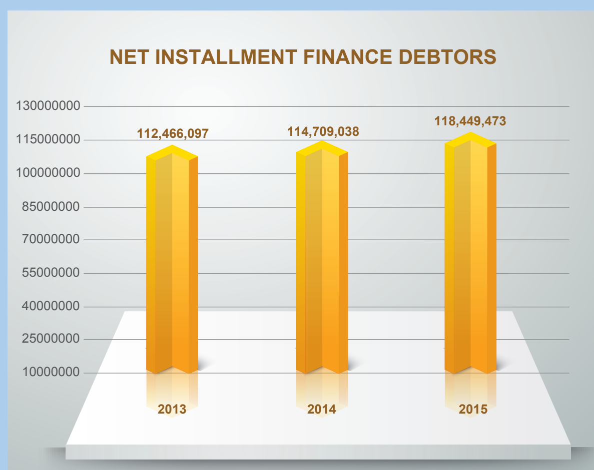
Banks continued their patronage through renewal / enhancement of credit facilities extended to the company to augment growth in assets and maintain a comfortable cash flow all through the year. They have reposed confidence in the company's performance and have expressed their willingness to extend additional credit facilities to meet the growth plans of the company.

Dividend

The Board of Directors recommends a cash dividend of 10% and stock dividend of 5% from the distributable surplus of the company, subject to approval at the Annual General Meeting.

Looking Ahead

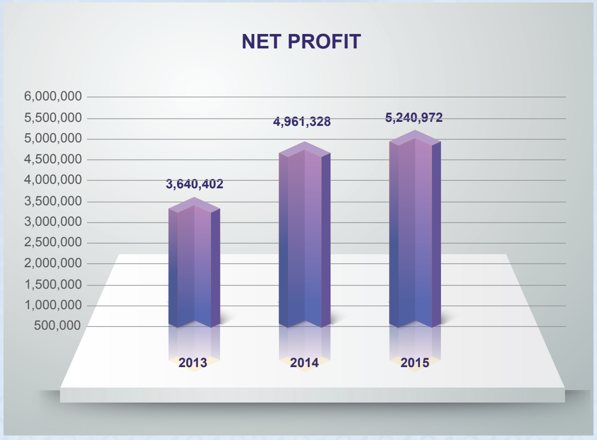
The government has conveyed that developmental projects in progress would be pursued despite the steep drop in oil price. In addition the government would also embark on high priority infrastructure projects to meet the



growing socio economic and civic needs of the economy. The expansion / construction of airports and seaports, developing road network and construction of buildings to cater to the growing needs in the health, education and housing sectors are envisaged. The implementation of these projects is expected to reinforce confidence and support sustained growth.

The budget for the year 2016 aims at stimulating economic growth by earmarking a sizable outlay on high priority socio economic and developmental projects, continuing to provide support and an ideal environment to foster growth and investment in the private sector and to sustain the level of basic services provided to the community. Dilution of government's stake in public utility companies is on the anvil to encourage private sector participation and investment and complement the initiatives of the government in the developmental process of the economy. These measures are aimed at insulating the economy from volatile market environment against the backdrop of the sharp decline in oil price and laying the path for a modest growth in the ensuing year.

UFC plans to tread cautiously and optimize the market opportunities as they emerge to expand its business. The company would continue its conservative approach to



grow its loan portfolio with emphasis on asset quality. Our credit process would be fine-tuned to evaluate prospective customers in light of the volatile business environment. The company would take proactive measures to avoid credit concentration by spreading risk. In its pursuit to grow its loan portfolio, the company would focus on maintaining a balanced mix comprising of Corporate and Retail business. The company has adequate unutilised credit limits and our bankers are willing to extend additional resources to meet the company's business requirements. We envisage competition from banks and peers to be intense in the ensuing year. This coupled with the upward movement in interest rates on borrowings is expected to result in the contraction of net interest margins. Our collection efforts would focus on reduction of impaired loans and early defaults to stop fresh incidence of impaired loans. However, with the tightening of liquidity and the prevailing situation of delayed payment of dues by main contractors, we foresee a challenging period ahead to keep impaired loans under check. The company would focus on optimum utilization of resources to improve operational efficiency and profitability.

Human Resources

UFC has, through the years, focused on recruiting and nurturing local talent. The company imparts continuous training to its employees with particular emphasis on Omani youth to equip them to take on additional responsibilities to achieve their career aspirations. The company recruits aspiring fresh Omani graduates and diploma holders and provides on the job training to equip them with the required skill sets to handle tasks assigned to them. Despite the frequent exodus of local staff, the company recruited new Omani staff as replacement and maintained the prescribed Omanisation percentage. The company provides a congenial working environment and good salaries to encourage Omani staff to grow with the company.

Corporate Governance

The company pursues the best corporate governance practices and is compliant with the prescribed code. The corporate governance philosophy and practices adopted by the company are contained in the report on corporate governance accompanied by the report of Statutory Auditors.

Corporate Social Responsibility

As part of its corporate social responsibility initiatives, UFC employs Omani youth without work experience and grooms them to become productive resources. The company consciously participates in social programs by conducting regular blood donation camps and offers employment to the physically challenged. The company also extends funding to SME's and local community contractors involved in implementing projects in interior regions and indirectly aids in providing employment opportunities and a source of livelihood for people living in the vicinity.

Acknowledgement

On behalf of the Board I wish to express our gratitude to the Central Bank of Oman, Capital Market Authority, Ministry of Commerce and Industry, Ministry of Manpower, Royal Oman Police and other Regulatory Authorities and thank them for their support and guidance. We also take this opportunity to extend our sincere thanks to our bankers, shareholders and other stakeholders for their unstinted support.

On behalf of the Board I would like to place on record my appreciation and thank the Management and staff for their individual and collective efforts in improving the company's performance and achieving higher operational efficiency.

The Board of Directors and Management express their highest gratitude to His Majesty Sultan Qaboos bin Said and respectfully acknowledge his dynamic leadership and utmost caring to nurture the local economy.

May God bless all of us.

Sulaiman Ahmed Al Hoqani
Chairman

Management Discussion and Analysis for the year 2015

Mansoor Mubarak Al Amri
Chief Executive Officer

Economic Overview

Oman is forecast to post a modest growth for the year 2015 despite the volatile market environment triggered by the sharp drop in oil prices witnessed through the year. Despite the severe strain on oil revenues, the government continued its spending on developmental projects and went ahead with the projects that were already in progress and also embarked on new need based projects to cater to the socio economic needs of the country. This aided in insulating the economy from the uncertainties that affected the regional markets and maintain stability in economic activities.

The government's thrust on diversification into non-oil segments gained momentum with focus on development of infrastructure to support international trade and tourism to gradually reduce dependence on oil revenue. Investment in health and education sector, development of road networks and other socio economic projects to cater to the growing civic needs of the country were also pursued. Joint ventures with participation from foreign investors and private sector investment in real estate and integrated tourism development projects and shopping malls complemented the government's efforts to support growth. These initiatives provided avenues for expansion of business. In addition the government also pursued measures to promote the growth of SME's and encourage self-employment amongst the citizens.

During the first three quarters of 2015 the local money market was liquid and interest rates remained low. Banks were flush with liquidity, even after funding the business opportunities from developmental activities. This, coupled with the banks objective to achieve the CBO prescribed exposure to SME segment, prompted banks to enter the SME and vehicle finance segment, which was hitherto the niche market of FLCs. However, the last quarter witnessed tightening of liquidity in the market and interest rates starting moving up, as the government also tapped the local banks to fund its requirements.

The government's resolve to proceed with the implementation of ongoing projects coupled with the additional planned spending for new need based socio economic projects in the State Budget for 2016 is expected to mitigate the risks to the Oman economy from the low oil prices and achieve some growth.

Industry Overview

During 2015 the Oman economy witnessed reasonable growth supported by sustained government spending. Despite the sharp decline in oil prices, the government went ahead with the various infrastructure and developmental projects to foster growth. These initiatives provided avenues for private sector investment and participation in developmental activities to expand their operations. There was a steady demand for commercial vehicles and equipment from the business segment. However, the market witnessed as decline in the demand for private vehicles.

The market provided reasonable opportunities for banks and FLCs to expand credit and grow their loan books. However, the entry of banks into SME and vehicle financing segment, hitherto the niche market of FLCs, triggered intense competition reduction in lending rates. This coupled with in-house funding by vehicle dealers at very low lending rates reduced the market share of FLCs. This prompted a gradual decline in lending rates and contraction of net interest margins of banks and FLCs. However, the low funding cost during the first three quarters aided in maintaining reasonable income spreads despite the decline in lending rates.

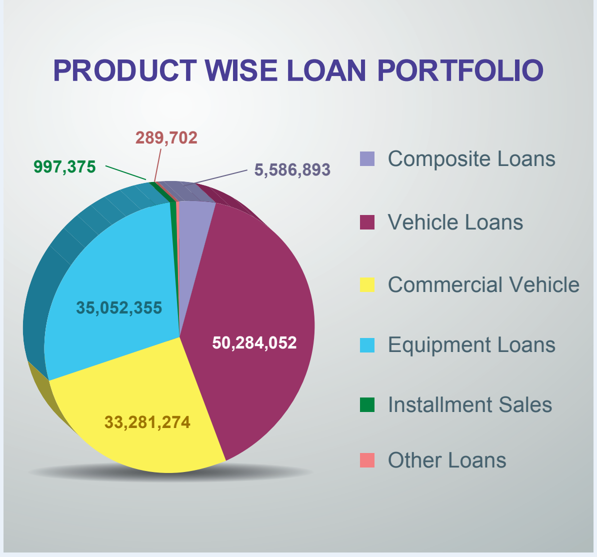
Opportunities & Threats

The prospects for growth of the economy are dependent on the quantum of government spending. The State budget for 2016 has earmarked a reasonable outlay for various infrastructure and developmental projects in addition to pursuing ongoing projects, although the overall spending is budgeted at a lower level over the previous year. The budget envisages reasonable investment in the fields of education, health, tourism and other socio economic projects to cater to the economic and civic needs of the country. The government's thrust on diversification into non-oil segments through investment in development of infrastructure facilities to promote international and local trade, tourism and attract foreign investment and private sector participation is to achieve balanced growth.

These initiatives of the government are aimed at mitigating the local economy from the impact of the uncertainties in the regional and international markets against the backdrop of low oil prices. These measures are aimed at maintaining the pace of economic activity and providing opportunities for the business entities to sustain their scale of operation. These developments are expected to sustain the demand for commercial vehicles and equipment and provide avenues for funding by banks and FLCs through participation in funding of developmental projects, extending credit to business entities for purchase of capital goods and to meet their working capital needs and by extending finance for private vehicles.

However, the current level of oil prices, which are significantly lower than the budget assumption, should they continue for a long period, could force the government to restrain its spending, and could result in a slow down / deferment in the implementation of planned projects. Such a situation would hinder the pace of economic activity and limit growth prospects, resulting in drop in demand for goods and services and result in idle capacity and strained cash flows that would seriously impact the business prospects of banks and FLCs. Further, delays in the settlement of contractual dues by counter parties could trigger a liquidity crunch and force borrowers to delay or default on their loan commitments to banks and FLCs resulting in an increase in delinquencies.

The entry of banks into funding of SMEs and vehicle financing of private vehicles coupled with the in-house funding resorted to by vehicle dealers has increased competition and resulted in the reduction of the market share of FLCs and further contraction of net interest margins. Further, changes in regulations governing the FLCs could also have an impact on their performance.



Analysis of Segment & Product-wise performance

UFC extends finance to both the retail and corporate segments with the objective of maintaining a balanced loan portfolio. As at December 2015 its corporate exposure stood at 75% with the balance 25% representing retail exposure. Loans extended for assets used by the borrowers for income generation are classified under corporate segment, while assets used for personal purpose are classified under retail segment. The Management evaluates the loan portfolio of the company regularly, based on the repayment track record, income spreads, value at risk and incidence of delinquencies, and modifies the lending norms to reduce credit risk and improve asset quality. In addition, the credit policy of the company is periodically fine-tuned based on market inputs and risk review reports on the loan portfolio to guard against delinquencies. The incidence of delinquencies has declined through tightening of credit norms and objective evaluation of proposals independently by Credit and Risk Management departments. All loans extended by the company are secured by the assets financed and additional security by way of assignment of receivables, collateral assets, mortgage of property, personal guarantees of borrowers and counter parties are obtained on a case-to-case basis to mitigate risk from unexpected developments.

Outlook

UFC would adopt a cautious approach to grow its loan book at a modest pace by optimizing the available market opportunities, considering the volatile market conditions. The company lays emphasis on improving asset quality through objective evaluation of loan proposals and tightening its collection mechanism to mitigate the incidence of delinquencies. The company will pursue its objective of mitigating risk through diversifying its loan portfolio and reducing credit concentration and focus on maintaining a balanced portfolio mix. The management would continue its concerted efforts and adopt appropriate steps to improve collection efficiency and reduce the level of impaired loans. These measures would help in controlling impaired loans in the ensuing year. Under the guidance of the Board of Directors, the Management team and dedicated staff of the company will strive to improve operational efficiency, achieve better financial performance and enhance returns to the stakeholders in the ensuing year.

Human Resources

UFC has always laid emphasis on providing employment opportunities to aspiring Omanis and nurturing local staff to achieve their career aspirations. UFC focuses on grooming its staff to improve service levels and enhance customer relationships. The company continuously assesses the training needs of its staff and conducts regular training programmes to update their knowledge and skill sets and equip them to occupy higher positions. During the year the company recruited fresh and experienced Omani candidates to replace local staff who left the company. The company has achieved the prescribed Omanisation target. The company is on the look out for local talent to achieve the dual objective of surpassing the Omanisation target and providing them a sustainable future.

Risks & Concerns

Any activity is exposed to inherent risks caused by factors within and outside the organization. While some risks can be predicted with reasonable certainty, there are others that are caused by unforeseen events and developments. Since financial institutions play a complementary role in financing developmental activities to foster economic growth, they are directly affected by risks that the economy is exposed to at large. Hence it is essential that the financial institutions take consistent and pro-active measures to effectively manage risk.

The company has laid down well-defined policies and procedures for all its financial and business transactions that aid in mitigating operational risk through internal control measures. Periodic review of the performance of the loan portfolio of the company by Risk Management Department helps in evaluating the risks the company and the industry are exposed to. The department also regularly reviews the economic and market developments and their likely impact on the performance of the company and the financial services sector. The Board and Management are provided with critical data on factors that are likely to affect the business prospects, delinquency and profitability of the company based on the evaluation of available information to facilitate initiating corrective steps to mitigate risks. Risk Management also independently evaluates all credit proposals above a threshold level and highlights their views to the sanctioning authorities to facilitate objective decision-making.

Credit Risk

Credit risk arises when a borrower fails to honour a financial commitment to the lender, thereby causing a financial loss. Periodic review of our credit evaluation process to align with the prevailing market environment conditions helps in minimizing the credit risk. Continuous monitoring of the business performance of borrowers through regular interactions, evaluation of financials and information from market sources helps the company proactively assess any signs of weakness or dilution in the creditworthiness of borrowers and take proactive measures to mitigate credit risk.

Interest Rate Risk

Interest rate risk arises on account of mismatches in the re-pricing dates of assets or liabilities. The company manages this risk by minimizing the gap in the re-pricing profile of assets and liabilities and through alternate risk management strategies. The loans extended by the company are for periods varying from one to over five years at fixed interest rates, albeit with interest variance clause. However, any re-pricing of the company's liabilities by its lenders due to economic factors would result in an interest rate risk. The company mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates to the extent possible.

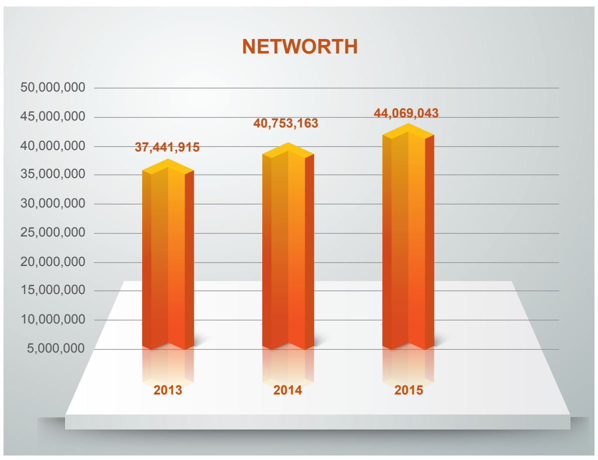
Liquidity Risk

Liquidity risk is what an entity will encounter, when it is unable to meet its obligations at any given time. The company's conservative liability management policies are designed to ensure that even in adverse situations the company should be in a position to meet its obligations. The ALCO members review the maturity profile of asset and liabilities at monthly intervals and initiate proactive measures to counter the incidence of liquidity risk.

Internal control systems & their adequacy

UFC has a competent Internal audit team in place comprising of experienced professionals. In addition, the company has assigned some areas of internal audit to a professional international audit firm, to complement the scope of work of the in-house team. In addition to the regular checks carried out, their scope of work focuses on risk-based audit. The internal audit setup in place is appropriate to handle the level of operations of the company. The department directly reports to the Audit Committee, which comprises of members from the Board. The internal control systems of the company are also reviewed on a regular basis to implement checks and balances to enhance effectiveness of controls in place to avoid the incidence of errors. The policy and procedure manuals covering various areas of operation were reviewed and updated by the Management at periodic intervals in line with the changing business environment and circulated to the concerned departments, for their reference and compliance, after approval by the Board.

The role of internal audit is further strengthened through the compliance function to ensure conformity with statutory and regulatory requirements and the policies and procedures of the company. The compliance function is independently headed by the Chief Compliance Officer, who reports to the Board of Directors, and is an experienced and competent professional. The compliance team comprises of the Chief Compliance Officer who is assisted by Departmental Compliance Officers in each department and at all branch offices. The compliance issues pertaining to every area of operation of the company has been defined and specific staff in each department have been identified and entrusted with the responsibility of ensuring compliance with the prescribed norms.

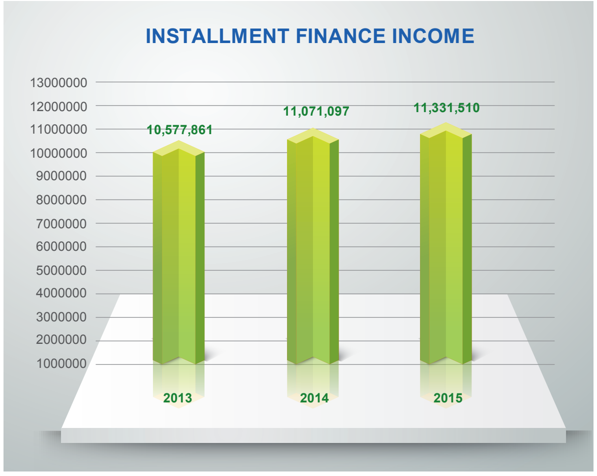


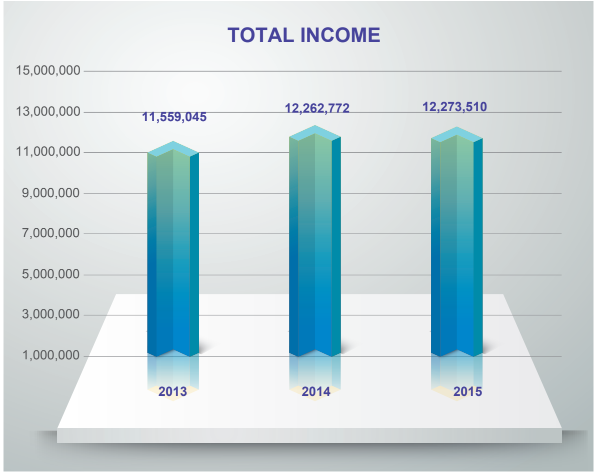
Information Technology, Disaster Recovery and Business Continuity Plan

UFC has a team of experienced and competent Information Technology professionals. The company lays emphasis on regularly reviewing and upgrading its IT infrastructure to cater to the needs of the changing business environment. The company uses state-of-the-art banking software, which is in use by many banks and financial institutions in different countries. The company set up its Disaster Recovery infrastructure at Barka. This setup is tested periodically to ensure preparedness. With the DR infrastructure in place, the company is equipped to resume its business operations with minimum down time, in the event of any disruption. The company has in place an approved Business Continuity plan as applicable to finance institutions.

Discussion on financial & operational performance

UFC turned in a good performance during 2015. The company maintained good relationship with all major vehicle and equipment dealers and also focused on direct marketing and to grow its loan book. The company pursued a cautious approach with emphasis on asset quality. The company disbursed fresh loans of RO 54.94m during 2015. The loan portfolio as at 31st December 2015 increased to RO 118.45m from RO 114.71m as at December 2014. This nominal growth in loan portfolio is on account of an increase in the amount of loans foreclosed during the year. The company registered a net profit of RO 5.24m for the year 2015 as against RO 4.96m in 2014 – an increase of 6%. Impaired loans reduced to RO 11.02m as against RO 15.66m as at December 2014. Concerted efforts are being made to improve collection efficiency and the management is confident of controlling the level of impaired loans in the ensuing year. The Board has recommended cash dividend of 10% and stock dividend of 5% for 2015 subject to approval at the Annual General Meeting.





All banks have reposed confidence in the performance of the company and have expressed their willingness to extend additional credit facilities to meet the business requirements of the company. During the year, while some banks renewed the credit facilities extended by them, others sanctioned additional credit facilities to the company. The market was very competitive with the entry of banks into segments like SME and vehicle financing coupled with in-house financing by major vehicle dealers thus reducing the market share of finance companies. This resulted in a decline in lending rates that affected net interest margins. However, this was compensated by low interest rates on borrowing cost and aided in maintaining reasonable income spreads.

The company provided RO485K as additional provision during the year. The company is taking various steps to improve collection performance and control the level of impaired loans in the ensuing year despite the looming uncertainties against the backdrop of low oil prices.

Company’s Growth at a Glance

			(RO ‘000)
Particulars	**2013**	**2014**	**2015**
Total Assets	117,103	119,159	123,105
Share Capital	27,501	27,501	31,076
Net Worth	37,442	40,753	44,069
Finance Debtors	112,466	114,709	118,449
Total Borrowings	71,748	70,684	70,330
Gross Income	11,559	12,262	12,273
Net Finance Income	7,871	8,509	9,242
Net Profit	3,640	4,961	5,241

EY
Building a better working world

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

Report of Factual Findings on the corporate governance reporting of United Finance Company SAOG and its application of the corporate governance practices in accordance with the CMA code of corporate governance

TO THE SHAREHOLDERS OF UNITED FINANCE COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no. 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of United Finance Company SAOG (the Company) and its application of corporate governance practices in accordance with the CMA's Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. 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.

We report our findings below:

We found that the Company's corporate governance report fairly reflects the Company's application of the provisions of the code and is free from any material misrepresentation.

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 Company's 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 United Finance Company SAOG to be included in its annual report for the year ended 31 December 2015 and does not extend to any financial statements of United Finance Company SAOG, taken as a whole.

Ernst & Young LLC

29 February 2016
Muscat

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

Report on Corporate Governance

I. Company's philosophy

United Finance Company SAOG (the Company) has adopted the Corporate Governance framework introduced vide CBO circular no. BM/932 dated 04.02.2002, CMA regulations vide CMA circular no. 11/2002 duly amended by circular No 1/2003 and CMA Administrative Decision No.5/2007 as part of its Disclosure Policy. The company always believed in good governance practices and it was with pleasure that the Board and Management noted that the company was in full compliance with CBO/CMA guidelines in this respect. Further separate paragraphs on Corporate Social Responsibility and Information Technology, Disaster Recovery and Business Continuity Planning are being included in the Annual Report.

Salient features of the governance regulations followed by the company are as under.

1. Role and responsibilities of the Board:

The regulations lay down the principles of demarcation between the role, responsibility and accountability of the Board of Directors and that of the Management in the conduct of the affairs of the company. The broad areas of Board's responsibilities are as under:

a. Policies formulation
b. Supervision of major initiatives.
c. Overseeing policy implementation and periodic review.
d. Ensuring compliance with laws and regulations.
e. Nurturing proper and ethical behavior.
f. Transparency and integrity in stakeholder reporting.
g. Approving and implementing disclosure policy and monitoring its compliance with regulatory requirements.
h. Reviewing material transactions with the related parties which are not in the ordinary course of business.
i. Nominating the members of the sub committees of the Board of Directors, specifying their roles, responsibilities and powers.
j. Selecting Chief Executive Officer and other key executives from managerial level and upwards, specifying their roles, responsibilities, powers and remuneration.
k. Evaluating the function of sub committees, Chief Executive Officer and key employees.
l. Approving interim and annual financial statements.
m. Reporting to the shareholders in annual report about the going concern status of the company.
n. Approval of a proper delegation of power to executives covering entire range of functions like administrative powers, financial powers and personnel powers…etc.
o. Prevent dealing in the shares of the company on the basis of undeclared or unrevealed information, by those who are, by virtue of their position aware of such information.

2. Role and Responsibilities of the Management:

a. Rendering assistance in policy formulation and periodic review to the Board.
b. Responsibility for implementation: Management is responsible for implementation of banking laws, regulations and circulars issued by Central Bank of Oman and other regulatory authorities within the Sultanate of Oman.
c. Management is also responsible for implementation of Board approved policies by putting in place procedures, internal controls, risks and performance measurement methodologies, management information systems and reports to the Board.
d. Responsibility for transmitting correct and timely signals.
e. Acting professionally and expertise manifest.
f. Nurturing proper and ethical behavior.
g. Responsibility for complete and authentic reporting to the Board.
h. Responsibility for corporate image.
The company shall adhere to the best practices in respect of appointment of directors, disclosure of company's affairs, induction of new directors, appointment of key executives and fixing their remuneration, ensuring proper written delegation of authorities and operational procedures for the conduct of affairs of the company based on the principles detailed in Annexure 1 of the CMA code of Corporate Governance and regulations.

3. Internal Control Systems and their adequacy:

The company has implemented various internal control systems in its financial operation and business operations. The Board of Directors has set up an Audit Committee of the Board having four of its Directors as its Members. This committee supervises the functions of the Internal Audit Department of the company and the Internal Audit Department reports directly to the Audit Committee of the Board maintaining its independence. There are well-defined policies and procedures for all financial and business transactions of the company. Internal Audit Department checks the financial transactions, business transactions, and regulatory compliances such as CBO and CMA systems and procedural audit and policy compliance. Further, it is ensured that no transaction in the company is completed by a single person and always a minimum of two persons are involved. Similarly, there is sufficient control exercised on computer systems, such as differentiating the development server from live server and access control of data. The company has well documented procedures for its operations to be managed with acceptable controls and the Board of Directors has found these controls to be effective.

II. Board of Directors

The company's Board of Directors consists of the following:

Executive Directors	NIL
Non-independent, Non-Executive Director	1. Shaikh Sulaiman Ahmed Al Hoqani (Chairman)
Independent, Non-Executive Directors	2. Mr. Hassan Ihsan Naseeb Al Nasib (Deputy Chairman) 3. Mr. Mohamed Abdulla Al Khonji 4. Mr. Ranga Gorur 5. Mr. Hussam Hisham Omar Bostami 6. Mr. Waseem Salah Qaraeen

DIRECTORS' PROFILE

1 **Shaikh Sulaiman Ahmed Al Hoqani**, is a major investor in several publicly listed companies and real estate in Oman, GCC, Middle East and worldwide. Besides being the Chairman of UFC and a member of UFC's Credit Committee and Risk Committee, he is also the Chairman of Global Financial Investment Holding Co. SAOG. He is also on the boards of Gulf Stone Co. SAOG, Al Batinah Hotels Co. SAOG, Omani Sayyarat Co. SAOC and many other companies outside Oman. In the past he has been a board member of Bank Muscat, Bank of Oman, Bahrain and Kuwait, Oman Air, Oman Hotels & Tourism Co. SAOG, Muscat Finance Co. SAOG, etc., in Oman. He has also been on the Investor Committees of several overseas funds launched by local banks.

2 **Mr. Hassan Ihsan Naseeb Al Nasib** has done Masters in Military Science. He has over 37 years experience and retired as Major General from the Ministry of Defence. Presently, in addition to being the Deputy Chairman and Audit Committee Member of UFC, he holds the position of Deputy Chairman of Global Financial Investment Holding Co. SAOG and Deputy Chairman of Sohar Gases LLC. He is also on the boards of Oman Holdings International SAOC and Sun Packaging LLC. In the past, he has been a member of the State Council and was a board member of Ahli Bank, Computer Stationery Industry SAOG, Dhofar Cattlefeed and Oman Hotels & Tourism Co. SAOG.

3 **Mr. Mohamed Abdulla Al Khonji**, is a Bachelor in Economics and graduated in 1994 from the University of Northern Colorado, USA. He is a major investor in several companies and real estate in Oman. Besides being a board member and Chairman of Audit Committee and a member of the Risk Committee in UFC, he is the Chairman of Board and Executive Committee in Oman Hotels & Tourism Co. SAOG, board member & Chairman of Executive Committee in The Financial Corporation Co. SAOG and board member and a member of the Audit Committee in Takaful Oman Insurance SAOG. He is also the Deputy Chairman of Board & Chairman of Executive Committee, Al Khonji Group, Chairman of Al Khonji Holding LLC. and Chairman & CEO of Aqar – Oman. In the past, he has been on the boards of several listed companies and banks like Bank Sohar SAOG, Oman Investment & Finance Co. SAOG, National Aluminium Products Co. SAOG, Oman National Electric Co. SAOG, Oman Medical Projects Co. SAOG, Taageer Finance Co. SAOG, etc. He was also a member of the Oman – India Committee and Oman – Lebanon Committee at the OCCI.

4 **Mr. Ranga Gorur** is holding the position of Chief Finance Officer of Oman Holdings International Co. SAOC. He is a Fellow Member of the Institute of Chartered Accountants of India as also CPA Australia, with over 38 years of professional experience. Besides being a board member and a member of the Risk Committee and Credit Committee of UFC, he is also a board member & Chairman of the Audit Committee in Computer Stationery Industry SAOG. He is also a board member of Al Ahlia Insurance Co. SAOC, member of their Investment Committee and the Chairman of their Audit Committee.

5 **Mr. Hussam Hisham Omar Bostami**, holds a Bachelor of Administrative Sciences Degree from the Yarmouk University, Jordan, majoring in Accounting. He also holds a Master Degree in Banking and Financial Studies from the Arab Academy for Banking and Financial Sciences, Jordan. He is also a Certified Compliance Officer from the American Academy of Financial Management. He has worked as Internal Auditor in both Amman Bank for Investment (Jordan) and the Oman Development Bank (Oman) and also as Credit & Investment Officer in the Islamic International Arab Bank (Jordan). Currently he is working as General Manager – Group Finance and Administration with Global Financial Investment Holding Co. S.A.O.G., Muscat, Oman. Besides being a board member and a member of the Credit Committee in UFC, he is also on the boards of Construction Material Industries SAOG, Al Madina Logistic Services Co. SAOC, Omani Sayyarat Co. SAOC, Al Sharqiyah University SAOC and Oman Fasteners LLC. Previously he was on the boards of Oman Hotels & Tourism Co. SAOG and Oman Filters Industry SAOG.

6 **Mr. Waseem Salah Qaraeen**, holds a Degree in Bachelor of Economics, Administration, Sciences (Accounting) from the Applied Science University, Amman – Jordan. He also holds a master's certificate (MBA) from the Bedfordshire University in UK. Currently he is working as the Deputy General Manager –

Investment Services Department at Global Financial Securities Services LLC. Prior to this, he has worked as Internal Auditor in Global Financial Investment Holding Co. SAOG and as an Accountant in United Arab Investments, Amman, Jordan. Besides being a board member and member of the Audit Committee in UFC, he is also on the boards of Construction Material Industries SAOG, Al Batinah Hotels Co. SAOG, Al Batinah Development & Investment Holding Co. SAOG and Global Omani Development & Investment Co. SAOC., Global Financial Securities Services LLC., and Oman Fasteners LLC.

Details of attendance of Board Members for Board Meetings during 2015

	Board Member	Board Meeting Dates							
		27/01/2015	12/02/2015	22/03/2015	30/04/2015	15/07/2015	23/08/2015	21/10/2015	10/12/2015
1	Shaikh Sulaiman Ahmed Al Hoqani	YES	YES	YES	YES	YES	YES	YES	YES
2	Mr. Hassan Ihsan Naseeb Al Nasib	-	-	YES	YES	YES	YES	YES	YES
3	Mr. Mohamed Abdulla Al Khonji	YES	YES	YES	YES	YES	-	YES	YES
4	Mr. Ranga Gorur	YES	YES	YES	YES	YES	YES	YES	YES
5	Mr. Hussam Hisham Omar Bostami	YES	YES	YES	-	YES	YES	YES	YES
6	Mr. Waseem Salah Qaraeen	YES	YES	YES	YES	YES	YES	YES	YES
7	Mr. Ahmed Mohamed Mansoor *	YES	-	-	-	-	-	-	-

**Mr. Ahmed Mohamed Mansoor submitted his resignation on 09.06.2015, which was accepted by the Board on 15.07.2015*

Details of attendance of Board members for AGM during 2015

	Board Member	AGM 22.03.2015
1	Shaikh Sulaiman Ahmed Al Hoqani, Chairman	Yes
2	Mr. Hassan Ihsan Naseeb Al Nasib	Yes
3	Mr. Mohamed Abdulla Al Khonji	Yes
4	Mr. Ranga Gorur	Yes
5	Mr. Hussam Hisham Omar Bostami	Yes
6	Mr. Waseem Salah Qaraeen	Yes

Details of EGMs:

The company convened EGM on 22.03.2015 and approved the increase of the authorized capital from RO 27,501,322 to RO 50,000,000 and also approved amendment of some of the company's Articles of Association.

Details of Membership of Other Boards:

	Board Member	No. of other Chairmanships, Directorships and memberships of other committees (excluding UFC)	
		Chairmanship in SAOG Co.	Directorship in SAOG Co.
1	Shaikh Sulaiman Ahmed Al Hoqani, Chairman	1	2
2	Mr. Hassan Ihsan Naseeb Al Nasib	-	1
3	Mr. Mohamed Abdulla Al Khonji	1	2
4	Mr. Ranga Gorur	-	1
5	Mr. Hussam Hisham Omar Bostami	-	1
6	Mr. Waseem Salah Qaraeen	-	3

III Audit Committee and other committees:

1. Brief description of terms of reference:

A. Audit Committee

- Considering the names of the statutory auditors in the context of their independence (particularly with reference to any other non-audit services), fee and terms of engagement and recommending its name to the board for putting before AGM for appointment.
- Reviewing audit plan and results of the audit and ensuring that auditors have full access to all relevant documents information.
- Checking financial fraud particularly fictitious and fraudulent portions of the financial statement if any. They should put in place an appropriate system to ensure adoption of appropriate accounting policies and principles leading to fairness in financial statements.
- Supervision of the internal audit function in general and with particular reference to reviewing of scope of internal audit plan for the year, reviewing the reports of internal auditors pertaining to critical areas, reviewing the efficacy of the internal auditing and reviewing as to whether internal auditors have full access to all relevant documents.
- Overseeing the adequacy of the internal control system through the regular reports of the internal and external auditors. They may appoint external consultants if the need arises.
- Overseeing the financial statements in general and with particular reference to review of annual and quarterly financial statements before issue, review of qualifications in the draft financial statements and discussion of accounting principles. In particular, change in accounting policies, principles and accounting estimates in comparison to previous year, any adoption of new accounting policy, any departure from International Accounting Standards (IAS) and non-compliance with disclosure requirements prescribed by

CMA should be critically reviewed.

- Serving as a channel of communication between external auditors and the board and also internal auditors and the board.
- Reviewing risk management policies and looking into the reasons of defaults in payment obligations of the company, if any.
- Reviewing proposed specific transactions with related parties for making suitable recommendations to the board and setting rules for entering into small value transactions with related parties without obtaining prior approval of audit committee and the board.
- Review and recommend suitable course of action to the Board or Management as deemed fit on reports submitted by Internal Auditor or an external / statutory authority on suspected frauds, if any, committed by staff members and / or borrowers.
- Review and ensure ethical practices are followed.
- Review and ensure that the company complies with all legal requirements.
- Determine that internal systems and controls are adequate and effective.
- Ensure that institutional credit policies and procedures are followed.
- Recommend the selection of the external auditor in consultation with the Management.
- Review that the published financial statements are not misleading.
- Assess issues relating to conflicts of interest and related party transactions and to ensure compliance with regulatory norms.
- Evaluate in general the adequacy and reliability of information available for Management decisions.
- Review with the Company's counsels any legal matters that could have a material impact on the Company's financial statements, the Company's compliance with applicable laws and regulations and enquiries received from regulators or governmental agencies.
- The audit committee shall hear the views of internal and external auditors separately, at least once every year, without the presence of the Management.
- The audit committee shall hear the views of the external auditors before forwarding the annual accounts to the board for approval.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Approve all audit and non-audit services.

B. Credit Committee

- Decide on all proposals exceeding management authority as per the Authorities Manual.
- Review Credit Policy and new Products and make recommendations to Board.
- Review management analysis for reasons, review follow up adequacy, discuss measures for avoidance of similar cases in future in relation to Non-performing accounts. It is expected that NPAs will be reviewed by this committee as specified under Authorities Manual.
- Review at least once in six months, the adequacy of provisions based on management reports.

2 Details of Audit, Credit and Risk Committees' activities during the year:

A. Details of attendance of Board Members for Audit Committee Meetings during 2015

Date	Name of the Member and their representation in the Committee			
	Chairman of the committee	Member of the committee	Member of the committee	Member of the committee
	Mr. Mohamed Abdulla Al Khonji	Mr. Hassan Ihsan Naseeb Al Nasib	Mr. Waseem Salah Qaraeen	Mr.Ahmed Mohamed Mansoor *
27.01.15	YES	-	YES	YES
10.03.15	YES	YES	YES	-
30.04.15	YES	YES	YES	-
15.07.15	YES	YES	YES	-
21.10.15	YES	YES	YES	-

**Mr. Ahmed Mohamed Mansoor submitted his resignation on 09.06.2015, which was accepted by the Board on 15.07.2015*

B. Details of attendance of Board Members for Credit Committee Meetings during 2015

Date	Name of the Member and their representation in the Committee		
	Chairman of the committee	Member of the committee	Member of the committee
	Shaikh Sulaiman Ahmed Al Hoqani	Mr.Ranga Gorur	Mr.Hussam Hisham Omar Bostami
27.01.15	YES	YES	YES
30.04.15	YES	YES	-
15.07.15	YES	YES	YES
21.10.15	YES	YES	YES

C. Details of attendance of Board Members for Risk Committee Meetings during 2015

Date	Name of the Member and their representation in the Committee		
	Chairman of the committee	Member of the committee	Member of the committee
	Shaikh Sulaiman Ahmed Al Hoqani	Mr. Mohamed Abdulla Al Khonji	Mr.Ranga Gorur
10.12.15	YES	YES	YES

IV Process of Nomination of the Directors:

The company follows the provisions of the Commercial Companies Law, CMA guidelines and circulars that are relevant to the nomination of the Directors and Annual General Meetings and the guidelines from the Central Bank of Oman in respect of nomination of the members of the Board of Directors. Within these guidelines the company makes an effort to ensure that the composition of the Board provides people with competencies and skills to motivate high performing talent, strategic insight, expertise in finance, good understanding of management, ability for crisis management and industry specific experience.

V Remuneration of directors and 5 top officials of the company:

A. The Board of Directors has been paid an amount of RO 57,500 as sitting fees and a total amount of RO 100,652 has been provided for as board remuneration.

S. No.	Board Members	Sitting Fees Paid R.O.	Proposed Remuneration R.O.
1	Shaikh Sulaiman Ahmed Al Hoqani, Chairman	10,000	19,652
2	Mr. Hassan Ihsan Naseeb Al Nasib	8,000	16,500
3	Mr. Mohamed Abdulla Al Khonji	9,500	16,000
4	Mr. Ranga Gorur	10,000	16,000
5	Mr. Hussam Hisham Omar Bostami	8,500	16,000
6	Mr. Waseem Salah Qaraeen	10,000	16,500
7	Mr. Ahmed Mohamed Mansour*	1,500	-
		57,500	**100,652**

* *Mr. Ahmed Mohamed Mansoor submitted his resignation on 09.06.2015, which was accepted by the Board on 15.07.2015*

B. During the year the company incurred an annual cost, including variable component of RO 557,300 in respect of its 5 top officials.

The employment contracts of three Management members are renewable every two years and severance notice period is three months. End of service benefits is payable as per Omani Labour Law.

The employment contracts of two officers are renewable every two years and severance notice period is one month. End of service benefits is payable as per Omani Labour Law.

VI Details of non-compliance by the company:

The company had no occasion to attract penalties or strictures from Muscat Securities Market and Capital Market Authority during the last 3 years. During 2013 and 2014 the company had no occasion to attract penalties from Central Bank of Oman. During the year 2015 the company paid RO 2,500/- as penalty to the Central Bank of Oman.

VII Means of communication with the shareholders and investors:

- Quarterly results of the company are published in two leading newspapers in Arabic and English. Quarterly results in electronic format are also provided to Muscat Securities Market and are uploaded on its website and the same are available on the company's website www.ufcoman.com.
- Management Discussion and Analysis report forms part of the Annual Report.

VIII A. Market Price Data:

2015 Month	High R.O.	Low R.O.	No. of days traded	Financial Sector MSM Index (Monthly Average)
January	0.157	0.132	12	8,044.625
February	0.157	0.146	20	8,185.370
March	0.150	0.117	22	7,699.490
April	0.126	0.119	20	7,744.710
May	0.137	0.121	20	7,712.880
June	0.151	0.134	19	7,736.005
July	0.150	0.145	6	8,012.560
August	0.145	0.130	6	7,104.205
September	0.137	0.120	12	6,870.775
October	0.137	0.128	11	7,307.675
November	0.127	0.110	15	6,711.190
December	0.135	0.105	15	6,497.575

Shares are quoted based on RO 0.100 as par value

B. Distribution of shareholding:

SHAREHOLDERS (5% and ABOVE) AS ON 31.12.2015					
S. No.	Name	Nationality	Class of Equity	No. of Shares	%
1	Oman Hotels &Tourism Company SAOG	Omani	Ordinary	104,347,837	33.578%
2	First National L.L.C.	Omani	Ordinary	41,614,800	13.391%
3	Sulaiman Ahmed Said Al Hoqani	Omani	Ordinary	30,931,493	9.953%
4	First Global Financial Services LLC	Omani	Ordinary	20,340,000	6.545%
5	Al Saud Company Ltd.	Emirati	Ordinary	20,322,240	6.539%
6	Oman Holding International Company SAOG	Omani	Ordinary	17,562,710	5.651%
	Total			**235,119,080**	**75.657**
	Others			**75,645,860**	**24.343**
	Grand Total			**310,764,940**	**100.00**

IX Professional profile of E&Y: Statutory Auditor

Profile of Statutory Auditors

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 5,000 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 4,000 partners and 100,000 professionals. Globally, EY operates in more than 150 countries and employs 212,000 professionals in 728 offices. Please visit ey.com for more information about EY.

X Details of audit & other fees for the year 2015

Audit & Other Fees	RO.18,890

XI Acknowledgement by Board of Directors

The Board acknowledges that:

- The financial statements have been prepared consistently in accordance with the International Financial Reporting Standards (IFRS) as applicable to the Company to fairly reflect the financial position of the Company and its performance during the relevant financial period.
- Financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation, that the Company has adequate resources to continue in operational existence for the foreseeable future.
- It has reviewed the Company's systems of internal controls and risk management for the adequacy and integrity of those systems. It should be noted, however, that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. In addition, it should be noted that any system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Sulaiman Ahmed Al Hoqani
Chairman

EY
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 UNITED FINANCE COMPANY SAOG

Report on the financial statements

We have audited the accompanying financial statements of United Finance Company SAOG (the Company) which comprise the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 of 1974, as amended, and the Capital Market Authority.

Ernst & Young LLC

29 February 2016
Muscat

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

2014 US$	**2015 US$**		Notes	**2015 RO**	2014 RO
28,756,096	**29,432,493**	Installment finance income		**11,331,510**	11,071,097
(6,652,738)	**(5,426,932)**	Interest expense		**(2,089,369)**	(2,561,304)
22,103,358	**24,005,561**	**Net installment finance income**		**9,242,141**	8,509,793
3,095,260	**2,446,753**	Other income	4	**942,000**	1,191,675
(8,748,205)	**(9,473,566)**	Other expenses	5	**(3,647,323)**	(3,368,059)
(281,029)	**(259,361)**	Depreciation	7	**(99,854)**	(108,196)
(1,536,184)	**(1,260,792)**	Impairment on installment finance debtors - net	8	**(485,405)**	(591,431)
14,633,200	**15,458,595**	**Profit before tax**		**5,951,559**	5,633,782
(1,746,634)	**(1,845,681)**	Income tax expense	6	**(710,587)**	(672,454)
12,886,566	**13,612,914**	**Profit and total comprehensive income for the year**		**5,240,972**	4,961,328
0.047	**0.045**	**Basic and diluted earnings per share**	21	**0.017**	0.018

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2015

2014 US$	2015 US$		Notes	2015 RO	2014 RO
		ASSETS			
6,871,590	**6,776,094**	Property and equipment	7	**2,608,796**	2,645,562
1,439,351	**1,439,351**	Investment securities	10	**554,150**	554,150
441,558	**545,454**	Deposit with the Central Bank of Oman	11	**210,000**	170,000
297,945,553	**307,660,969**	Installment finance debtors	8	**118,449,473**	114,709,038
16,039	**15,275**	Deferred tax asset	6	**5,881**	6,175
309,870	**314,332**	Other receivables and prepaid expenses	9	**121,018**	119,300
2,481,408	**3,002,969**	Cash and cash equivalents	12	**1,156,143**	955,342
309,505,369	**319,754,444**	**Total assets**		**123,105,461**	119,159,567
		EQUITY AND LIABILITIES			
		Equity			
71,432,005	**80,718,166**	Share capital	13	**31,076,494**	27,501,322
1,372,475	**1,372,475**	Share premium reserve	14	**528,403**	528,403
9,358,771	**10,720,063**	Legal reserve	15(a)	**4,127,224**	3,603,127
6,093,327	**6,153,218**	Special reserve	15(b)	**2,368,989**	2,345,931
764,972	**764,972**	Foreign currency reserve	15(c)	**294,514**	294,514
16,830,821	**14,736,153**	Retained earnings		**5,673,419**	6,479,866
105,852,371	**114,465,047**	**Equity**		**44,069,043**	40,753,163
		Liabilities			
142,157,964	**136,386,026**	Borrowings	17	**52,508,620**	54,730,816
41,438,922	**46,290,545**	Corporate deposits	18	**17,821,860**	15,953,985
16,715,738	**20,145,813**	Creditors and other payables	19	**7,756,138**	6,435,559
3,340,374	**2,467,013**	Taxation	6	**949,800**	1,286,044
203,652,998	**205,289,397**	**Total liabilities**		**79,036,418**	78,406,404
309,505,369	**319,754,444**	**Total equity and liabilities**		**123,105,461**	119,159,567
0.385	**0.368**	**Net assets per share**	22	**0.142**	0.148

These financial statements were approved and authorised for issue in accordance with a resolution of the directors on 26th January 2016

Chairman

Director

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Share capital	Share premium reserve	Legal reserve	Special reserve	Foreign currency reserve	Retained earnings	Total
	RO	RO	RO	RO	RO	RO	RO
Notes	13	14	15(a)	15(b)	15(c)		
At 1 January 2015	27,501,322	528,403	3,603,127	2,345,931	294,514	6,479,866	40,753,163
Profit and total comprehensive income for the year	-	-	-	-	-	5,240,972	5,240,972
Transfer to legal reserve	-	-	524,097	-	-	(524,097)	-
Transfer to special reserve	-	-	-	23,058	-	(23,058)	-
Cash dividend	-	-	-	-	-	(1,925,092)	(1,925,092)
Stock dividend	3,575,172	-	-	-	-	(3,575,172)	-
At 31 December 2015	**31,076,494**	**528,403**	**4,127,224**	**2,368,989**	**294,514**	**5,673,419**	**44,069,043**

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2015

	Share capital	Share premium reserve	Legal reserve	Special reserve	Foreign currency reserve	Retained earnings	Total
	RO	RO	RO	RO	RO	RO	RO
Notes	13	14	15(a)	15(b)	15(c)		
At 1 January 2014	27,501,322	528,403	3,106,994	2,249,322	294,514	3,761,360	37,441,915
Profit and total comprehensive income for the year	-	-	-	-	-	4,961,328	4,961,328
Transfer to legal reserve	-	-	496,133	-	-	(496,133)	-
Transfer to special reserve	-	-	-	96,609	-	(96,609)	-
Cash dividend	-	-	-	-	-	(1,650,080)	(1,650,080)
At 31 December 2014	27,501,322	528,403	3,603,127	2,345,931	294,514	6,479,866	40,753,163

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 RO	2014 RO
Profit before taxation		**5,951,559**	5,633,782
Adjustments for:			
Depreciation	7	**99,854**	108,196
Loss on property and equipment written off/sold		**(162)**	(5,199)
Provision for impairment on installments finance debtors – net	8	**485,405**	591,431
End of service benefits charge for the year	20	**83,398**	55,473
Operating profit before changes in operating assets and liabilities		**6,620,054**	6,383,683
Installment finance debtors:			
- Disbursements		**(54,941,119)**	(53,804,851)
- Principal repayments received		**50,715,279**	50,970,479
Other receivables and prepayments		**(1,718)**	(24,461)
Creditors and other payables		**1,248,639**	(830,918)
End of service benefits paid	20	**(11,458)**	(9,829)
Income taxes paid	6	**(1,046,537)**	(76,788)
Net cash from / (used in) operating activities		**2,583,140**	2,607,315
Investing activities			
Proceeds on sale of property and equipment		**600**	5,500
Purchase of property and equipment	7	**(63,526)**	(77,896)
Additional deposit with Central Bank of Oman		**(40,000)**	(40,000)
Net cash used in investing activities		**(102,926)**	(112,396)
Financing activities			
Long-term loans received		**28,983,900**	24,000,000
Long-term loans repaid		**(24,087,044)**	(24,204,244)
Net change in short-term loans		**(7,300,000)**	-
Corporate deposits		**1,867,875**	(1,084,015)
Bank overdrafts		**180,948**	224,855
Dividends paid		**(1,925,092)**	(1,650,080)
Net cash (used in) / from financing activities		**(2,279,413)**	(2,713,484)
Net change in cash and cash equivalents		**200,801**	(218,565)
Cash and cash equivalents at beginning of the year		**955,342**	1,173,907
Cash and cash equivalents at end of the year	12	**1,156,143**	955,342

The attached notes 1 to 28 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

United Finance Company SAOG (the Company) is an Omani 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 principally involved in providing vehicle and equipment financing and is also licensed to provide composite loans, bridge loans, hire purchase, debt factoring and financing of receivables and leasing in Sultanate of Oman. The Company has its Head Office in Muscat with branches in Ibra, Ibri, Firq, Sohar, Salalah, Barka and Mawelah, all located within the Sultanate of Oman. The registered address of the Company is P.O. Box 3652, Postal Code 112, Ruwi, Sultanate of Oman. The Company has a primary listing on the Muscat Stock Exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of compliance

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

2.2 Basis of preparation

The financial statements are prepared under the historical cost convention and modified to include the measurement at fair value of available-for-sale investment securities.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. In the process of applying the Company's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements as disclosed in note 3.

(a) Standards and amendments effective in 2015 and relevant for the Company's operations:
For the year ended 31 December 2015, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2015.

The following new standards and amendments became effective as of 1 January 2015:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements 2010-2012 Cycle
  - IFRS 2 Share-based Payment
  - IFRS 3 Business Combinations
  - IFRS 8 Operating Segments
  - IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
  - IAS 24 Related Party Disclosures
- Annual Improvements 2011-2013 Cycle
  - IFRS 3 Business Combinations
  - IFRS 13 Fair Value Measurement
  - IAS 40 Investment Property

The adoption of those standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current and prior periods.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of preparation (continued)

(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) but are not yet mandatory for the year ended 31 December 2015:

- IFRS 15, Revenue from Contracts with Customers: effective for annual periods commencing 1 January 2018;
- IFRS 9, Financial Instruments - Hedge accounting: effective for annual periods commencing 1 January 2018;
- IFRS 14 Regulatory Deferral Accounts
- IFRS 16 Leases
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements 2012-2014 Cycle – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory. The Company intents to carry out a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment will be based on available information and may be subject to changes arising from a further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. The Company plans to adopt the new standard on the required effective date.

IFRS 16 Leases

The International Accounting Standards Board (IASB or Board) issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.

Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been early adopted by the company, are not expected to have a material impact on the company's financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency transactions

Functional and presentation currency

The accounting records are maintained in Rial Omani which is the functional and reporting currency for these financial statements. The United States Dollar amounts shown in the statement of comprehensive income and the statement of financial position have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

Transactions and balances

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

2.4 Recognition of interest income and expenses

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

The difference between the aggregate finance contract receivable and the cost of the financed assets plus initial direct costs is recorded as unearned finance income. Initial direct costs include amounts that are incremental and directly attributable to negotiating and arranging finance. They exclude general overheads such as those incurred by sales and marketing team.

Interest, which is doubtful of recovery, is unrecognised and excluded from income until the relevant loan becomes regular. Penal charges and other fees are recognised when received in cash.

2.5 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or statement of comprehensive income.

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

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date. Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 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:

Motor vehicles	3 years
Furniture and office equipment	3 - 6 years
Buildings	2 - 20 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 comprehensive income.

2.7 Financial assets

The Company classifies its financial assets as loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise installment finance debtors and cash and cash equivalents in the statement of financial position (notes 2.8 and 2.11).

(b) Available-for-sale financial assets

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

Available-for-sale financial assets are initially recognised at fair value including transaction costs. Such financial assets are subsequently carried at fair value, unless fair value cannot be reliably determined in which case these financial assets are measured at cost less impairment. Changes in the fair value of available-for-sale financial assets are recognised in the statement of change in equity as "cumulative changes in fair value".

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

On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the statement of comprehensive income.

(c) Trade and settlement date accounting

Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

(d) Derecognition of financial assets

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

i. the right to receive cash flows from the asset have expired; or
ii. the Company has transferred it 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
iii. 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.

2.8 Installment finance debtors

Installment finance debtors are stated at amortised cost using effective interest rate method less any amounts written off, provision for impairment and unrecognised contractual income.

2.9 Impairment of financial assets

Assets carried at amortised cost

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognised in the statement of comprehensive income.

For installment finance debtors carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehenisve income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the impairment loss provision.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's risk exposures that consider credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the periods on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from period to period (such as changes in, property prices, payment status, repeated requests for reschedulement or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Assets classified as available-for-sale

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

Renegotiated installment finance debtors

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

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

2.10 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates its interest rate swaps derivative as cash flow hedge to hedge the variable interest rate fluctuations on long-term borrowings.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Derivative financial instruments and hedge accounting (continued)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the statement of comprehensive income. Amounts accumulated in equity are routed through income statement in the period when the hedged items affects the statement of comprehensive income. The gain or loss relating to the effective portion of interest rate swaps is recognised in the statement of comprehensive income within interest expense. When a hedging instrument expire or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time, is immediately recognised in the statement of comprehensive income.

2.11 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.

2.12 Borrowings and corporate deposits

Borrowings and corporate deposits are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing borrowings and corporate deposits are subsequently carried at amortised cost using the effective interest method.

2.13 End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 and its amendments. 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. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

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

2.14 Creditors and other payables

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

2.15 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Financial guarantees

In the ordinary course of business, the Company's bankers issue financial guarantees to the Company's customers on behalf of the Company that are stated as contingent liabilities in the Companys' financial statements till it is cancelled or expires. In the event the bank invokes the guarantee, the Company pays the guarantee amount and debits the customers account, which would form part of the main statement of financial position.

2.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the year in which the dividends are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

2.18 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.

2.19 Earnings per share

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

2.20 Fair value estimation

For investments traded in an active market, fair value is determined by reference to quoted market bid prices. The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Unquoted equity investments are held at cost.

The fair value of interest rate swaps is arrived at by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

2.21 Directors' remuneration

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

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Offsetting

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Impairment losses on installment finance debtors
The Company reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required.

The Company reviews its installment finance debtors to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of debtors before the decrease can be identified with an individual debtor in that portfolio. This takes into consideration factors such as any deterioration in industry, collateral value and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

4 OTHER INCOME

	2015 RO	2014 RO
Bad debts recovered	**357,895**	523,917
Insurance commission income	**172,482**	219,142
Penal charges	**109,732**	124,841
Documentation fees	**136,344**	121,892
Foreclosure charges	**86,760**	94,193
Others	**47,733**	74,908
Dividend Income	**30,457**	27,285
Profit on sale of assets	**597**	5,497
	942,000	1,191,675

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

5 OTHER EXPENSES

	2015 RO	2014 RO
Staff costs (note 5.1)	**2,625,130**	2,464,578
Communication and traveling	**159,425**	145,631
Repairs and maintenance	**136,790**	132,565
Insurance	**108,304**	108,282
Statutory and legal expenses	**109,054**	107,625
Proposed directors' remuneration (note 24)	**100,652**	95,006
Fees and charges	**52,197**	69,334
Directors' sitting fees (note 24)	**57,500**	59,500
Others	**165,076**	59,626
Rent	**42,360**	42,360
Bank charges	**40,180**	39,560
Advertising and business promotion expenses	**27,882**	24,068
Water and electricity charges	**22,338**	19,626
Loss on sale of assets	**435**	298
	3,647,323	3,368,059

5.1 Staff costs

	2015 RO	2014 RO
Wages and salaries	**1,818,329**	1,726,619
Other benefits (note 5.2)	**621,793**	606,962
End of service benefits (note 20)	**83,398**	55,473
Contributions towards the Public Authority for Social Insurance Scheme	**101,610**	75,524
	2,625,130	2,464,578

5.2 Other benefits

	2015 RO	2014 RO
Others	**179,330**	195,566
Bonus to staff	**233,563**	217,170
Management incentives	**208,900**	194,226
	621,793	606,962

6 TAXATION

(a) Charge in the statement of comprehensive income is as follows:

	2015 RO	2014 RO
Statement of comprehensive income:		
Current tax:	**710,587**	671,732
Prior year	**-**	722
	710,587	672,454

(b) Breakup of tax liability and deferred tax asset are as follows:

	2015 RO	2014 RO
Current liability:		
Current year	**710,587**	671,732
Prior years	**239,213**	614,312
	949,800	1,286,044
Deferred tax asset:		
At 1 January	**6,175**	7,443
Movement during the year	**(294)**	(1,268)
At 31 December	**5,881**	6,175
The deferred tax asset comprises of the following temporary differences:		
Depreciation of property and equipment	**5,881**	6,175
	5,881	6,175

(c) The reconciliation of the tax on accounting profit at the applicable rate of 12% (2014 - 12%) after the basic exemption of RO 30,000 and the taxation charge in the financial statements is as follows:

	2015 RO	2014 RO
Profit before taxation	**5,951,559**	5,633,782
Taxation at the applicable tax rate	**710,587**	672,454
Add / (less) tax effect of:		
Non – deductible expenses	**-**	13,566
Deductible expenses	**-**	(14,288)
Taxation expense	**710,587**	671,732

6 TAXATION (continued)

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

	2015	2014
	RO	RO
At 1 January	1,286,044	691,646
Charge for the year	710,587	672,454
Paid during the year	(1,046,537)	(76,788)
Deferred tax movement during the year	(294)	(1,268)
At 31 December	949,800	1,286,044

For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

(e) The company's tax assessments have been agreed with the taxation authorities upto tax year 2009.

7 PROPERTY AND EQUIPMENT

	Land	Buildings	Motor vehicles	Furniture and office equipment	Total
	RO	RO	RO	RO	RO
Cost					
1 January 2015	1,969,215	769,966	38,000	1,145,152	3,922,333
Additions	-	-	-	63,526	63,526
Disposals	-	-	-	(50,640)	(50,640)
31 December 2015	1,969,215	769,966	38,000	1,158,038	3,935,219
Depreciation					
1 January 2015	-	291,301	37,998	947,472	1,276,771
Charge for the year	-	38,491	-	61,363	99,854
Disposals	-	-	-	(50,202)	(50,202)
31 December 2015	-	329,792	37,998	958,633	1,326,423
Net book value					
31 December 2015	1,969,215	440,174	2	199,405	2,608,796

7 PROPERTY AND EQUIPMENT (continued)

	Land	Buildings	Motor vehicles	Furniture and office equipment	Total
	RO	RO	RO	RO	RO
Cost					
1 January 2014	1,969,215	769,816	56,645	1,081,099	3,876,775
Additions	-	150	-	77,746	77,896
Disposals/written off	-	-	(18,645)	(13,693)	(32,338)
31 December 2014	1,969,215	769,966	38,000	1,145,152	3,922,333
Depreciation					
1 January 2014	-	252,661	56,314	891,637	1,200,612
Charge for the year	-	38,640	326	69,230	108,196
Disposals/written off	-	-	(18,642)	(13,395)	(32,037)
31 December 2014	-	291,301	37,998	947,472	1,276,771
Net book value					
31 December 2014	1,969,215	478,665	2	197,680	2,645,562

8 INSTALLMENT FINANCE DEBTORS

All debts are due from individuals, partnership firms and corporate bodies operating within the Sultanate of Oman. The maturity profile of debts outstanding at the reporting date is disclosed under note 27.

(a) Installment finance debtors arising from financing activities

	2015	2014
	RO	RO
Gross installment finance debtors	**144,312,563**	144,987,619
Unearned finance income	**(19,840,444)**	(19,492,836)
Net installment finance debtors	**124,472,119**	125,494,783
Debt factoring activity debtors	**1,019,532**	827,893
	125,491,651	126,322,676
Impairment provision	**(5,634,526)**	(9,406,753)
Unrecognised contractual income	**(1,407,652)**	(2,206,885)
	118,449,473	114,709,038

Debt factoring activity debtors includes amounts advanced to clients in respect of debts factored; interest on the amounts advanced and related charges. In the event of default in settlement of debts factored by customers of the client, the Company has recourse to the client.

8 INSTALLMENT FINANCE DEBTORS (continued)

(b) The table below represents analysis of gross installment finance debtors and present value of installment finance debtors for each of the following years:

At 31 December 2015	Upto 1 year RO	>1 year to 5 years RO	Total RO
Gross installment finance debtors	**57,326,079**	**88,006,016**	**145,332,095**
Installment finance and debt factoring activities debtors net of unearned interest	**48,386,243**	**77,105,408**	**125,491,651**
At 31 December 2014			
Gross installment finance debtors	60,529,493	85,286,019	145,815,512
Installment finance and debt factoring activities debtors net of unearned interest	51,662,644	74,660,032	126,322,676

(c) Movement in provision for loan impairment

The movement in the provision for impairment of finance debtors and reserved interest for the year was as follows:

2015	**Provision’**		**Total**
	Principal	**Interest**	
	RO	**RO**	**RO**
At 1 January	**9,406,753**	**2,206,885**	**11,613,638**
Charged during the year	**1,692,286**	**234,188**	**1,926,474**
Released during the year	**(1,206,881)**	**(215,039)**	**(1,421,920)**
Written 0ff during the year	**(4,257,632)**	**(818,382)**	**(5,076,014)**
At 31 December	**5,634,526**	**1,407,652**	**7,042,178**

The movement in the provision for impairment of finance debtors and reserved interest for 2014 was as follows:

2014	Provision’		Total
	Principal	Interest	
	RO	RO	RO
At 1 January	8,815,322	2,020,439	10,835,761
Charged during the year	1,821,769	311,071	2,132,840
Written back / released during the year	(1,230,338)	(124,625)	(1,354,963)
At 31 December	9,406,753	2,206,885	11,613,638

Contractual interest is not recognised by the Company so as to comply with the rules, regulations and guidelines issued by Regulators against finance contract receivables from the month in which the receivables are impaired i.e. overdue by more than 89 days. As at 31 December 2015, the total balance of finance debtors on which interest is not being accrued or has not been recognised amounted to RO 11.02 million (2014 - RO 15.66 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

9 OTHER RECEIVABLES AND PREPAID EXPENSES

	2015 RO	2014 RO
Prepaid expenses	**37,450**	75,182
Advances	**80,791**	41,436
Other debtors	**2,777**	2,682
	121,018	119,300

10 INVESTMENT SECURITIES

	2015 RO	2014 RO
Al-Soor Financing (Kuwait)	**554,149**	554,149
National Bureau of Commercial Information	**1**	1
	554,150	554,150

These represent unquoted investments classified as available-for-sale. These are carried at cost net of impairment in value, if any. Management believes that carrying value of these financial assets approximate their fair values.

11 DEPOSITS WITH THE CENTRAL BANK OF OMAN

The deposit represents a capital deposit with the Central Bank of Oman made in accordance with the Banking Law of 1974. The deposit is only repayable if the Company terminates its installment finance business within the Sultanate of Oman and settles all outstanding obligations and claims arising from that business. During the year, the deposit earned interest at the rate of 1% (2014 - 1.5%) per annum. In accordance with the circular number FM 29 issued by Central Bank of Oman on 15 June 2011, the company has to increase statutory deposit by RO 40,000 every year so as to reach RO 250,000 before the end of year 2016.

12 CASH AND CASH EQUIVALENTS

	2015 RO	2014 RO
Bank and cash balances	**1,155,943**	955,142
Call deposits	**200**	200
	1,156,143	955,342

Call deposits are placed with a commercial bank in the Sultanate of Oman with annual interest rate of 0.25% (2014 - 0.25%) per annum.

13 SHARE CAPITAL

Share capital comprises 310,764,940 (2014 - 275,013,222) fully paid shares of RO 0.100 each. The Company's authorised share capital is RO 50,000,000 (2014 - RO 27,501,322).

The shareholders who own 10% or more of the Company's shares are as follows:

	Number of shares		Percentage of holding	
	2015	2014	**2015**	2014
Oman Hotels and Tourism Company SAOG	**104,347,837**	63,225,725	**33.58**	22.99
The First National LLC	**41,614,800**	35,655,286	**13.39**	12.97

14 SHARE PREMIUM RESERVE

The share premium account represents the balance of share premium collected by the Company at the time of rights issue and conversion of optional convertible bonds during 2008.

15 RESERVES

(a) Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, annual appropriation of 10% of the profit for the year is made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the Company's paid-up share capital. This reserve is not available for distribution.

(b) Special reserve

During 2015, the Company transferred RO 23,058 (2014 – RO 96,609) to special reserve in accordance with the policy approved by the Board. As per policy the Company needs to create a special reserve to the extent of 1% of loans disbursed each year till it reaches 2% of the net instalment finance debtors and subject to provisions of Article 106 of the Commercial Company Law. The special reserve is being maintained to cover any delinquencies arising from unforeseen contingencies.

Special reserve is not available for distribution without prior approval of Central Bank of Oman.

(c) Foreign currency reserve

The Company maintained an optional "Foreign Currency Reserve" to mitigate risk of un-favourable foreign exchange losses.

16 DIVIDENDS PROPOSED AND PAID

The Board of Directors have proposed a cash dividend of 10% and stock dividend of 5% for the year 2015 (2014: cash dividend of 7% RO 1,925,092 and stock dividend of 13% 3,575,172) subject to approval of the shareholders at the Annual General Meeting of the Company to be held in March 2016.

During 2015, the cash dividend of 7% for the year 2014, amounting to RO 1,925,092 proposed by the Board of Directors was paid after approval by Central Bank of Oman and the Annual General Meeting (AGM) of the Company held in March 2015. The stock dividend of 13% proposed for the year 2014 amounting to RO 3,575,172 was credited to the shareholders accounts after approval by Central Bank of Oman and the AGM of the Company. Further, an amount of RO 27,669 in respect of unclaimed dividends was transferred during the year to Investors Trust Fund with Muscat Clearance and Depositary Company.

17 BORROWINGS

	2015 RO	2014 RO
Current portion of long-term loans	**23,029,209**	22,194,857
Short-term loans	**10,700,000**	18,000,000
Long-term loans	**18,373,608**	14,311,104
Bank overdrafts	**405,803**	224,855
	52,508,620	54,730,816

(a) The Company's bankers hold a pari passu charge over substantial portion of assets of the Company for the credit facilities granted. In addition, the Company is required to maintain certain performance and coverage ratios.

(b) The Company borrows from commercial banks and others at market interest rates.

(c) The interest rates on overdrafts and short-term loans are subject to change at the discretion of the banks, upon renewal of the facilities.

(d) The fair value of the long-term loans approximate their carrying value as it carries interest rates which approximates market interest rates.

(e) The related interest rate risk and maturity profile are shown under note 27.

18 CORPORATE DEPOSITS

The Company accepts term deposits from corporate customers in accordance with the CBO guidelines for a minimum period of 12 months. The interest rates and maturity profile are given under note 27.

19 CREDITORS AND OTHER PAYABLES

	2015 RO	2014 RO
Trade creditors	**5,778,135**	4,758,290
Others	**921,251**	795,367
Interest payable	**328,252**	234,605
End of service benefits (note 20)	**432,619**	360,679
Accrued expenses	**198,555**	234,624
Advances received from customers	**97,326**	51,994
	7,756,138	6,435,559

20 END OF SERVICE BENEFITS

	2015 RO	2014 RO
At 1 January	360,679	315,035
Charge for the year	83,398	55,473
Payments made during the year	(11,458)	(9,829)
At 31 December	432,619	360,679

21 BASIC AND DILUTED EARNINGS PER SHARE

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

	2015	2014
Profit for the year (RO)	5,240,972	4,961,328
Weighted average number of shares	302,830,997	275,013,222
Basic earnings per share for the year (RO)	0.017	0.018

The diluted earnings per share is same as basic earnings per share as the Company does not have any instruments having dilutive effect.

22 NET ASSETS PER SHARE

The calculation of net assets per share is as below:

	2015	2014
Net asset value (RO)	44,069,043	40,753,163
Number of ordinary shares outstanding	310,764,940	275,013,222
Net asset per share (RO)	0.142	0.148

23 SEGMENTAL INFORMATION

The Company operates in the finance industry and its operations are confined to the Sultanate of Oman. Management has determined the operating segments based on the reports reviewed by the Management Committee that makes strategic decisions.

The committee considers the business from a product perspective only, as geographically, all of the business is located locally in Oman.

The reportable operating segments derive their revenue primarily from corporate and retail. The insurance and factoring segments are not meeting the quantitative thresholds required by IFRS - 8 Operating Segments, therefore they are reported only for reconciliation purposes as well as the unallocated items.

The Management Committee assesses the performance of the operating segments based on a measure of profit before tax.

23 SEGMENTAL INFORMATION (continued)

The segment information provided to the Management Committee for the reportable segments for the year ended 31 December 2015 is as follows:

Reportable segments	Corporate RO	Retail RO	Others (Insurance and debt factoring) RO	Unallocated items RO	Total RO
Segmental revenues					
Installment finance income	8,449,625	2,816,541	65,344	-	11,331,510
Interest expense	-	-	-	(2,089,369)	(2,089,369)
Net installment finance income	8,449,625	2,816,541	65,344	(2,089,369)	9,242,141
Other income	-	-	173,509	768,491	942,000
Segmental expenses					
Other expenses	-	-	-	(3,647,323)	(3,647,323)
Depreciation	-	-	-	(99,854)	(99,854)
Profit before tax and provision for impairment	8,449,625	2,816,541	238,853	(5,068,055)	6,436,964
Provision for impairment-net	(364,054)	(121,351)	-	-	(485,405)
Segmental profit for the year before tax	8,085,571	2,695,190	238,853	(5,068,055)	5,951,559
Income tax expense	-	-	-	(710,587)	(710,587)
Segmental profit for the year	8,085,571	2,695,190	238,853	(5,778,642)	5,240,972
Total assets	88,837,105	29,612,368	-	4,655,988	123,105,461
Total liabilities	-	-	-	79,036,418	79,036,418

23 SEGMENTAL INFORMATION (continued)

The segment information provided to the Management Committee for the reportable segments for the year ended 31 December 2014 is as follows:

Reportable segments

	Corporate	Retail	Others (Insurance and debt factoring)	Unallocated items	Total
	RO	RO	RO	RO	RO
Segmental revenues					
Installment finance income	7,810,236	3,190,097	70,764	-	11,071,097
Interest expense	-	-	-	(2,561,304)	(2,561,304)
Net installment finance income	7,810,236	3,190,097	70,764	(2,561,304)	8,509,793
Other income	-	-	220,555	971,120	1,191,675
Segmental expenses					
Other expenses	-	-	-	(3,368,059)	(3,368,059)
Depreciation	-	-	-	(108,196)	(108,196)
Profit before tax and provision for impairment	7,810,236	3,190,097	291,319	(5,066,439)	6,225,213
Provision for impairment-net	(419,916)	(171,515)	-	-	(591,431)
Segmental profit for the year before tax	7,390,320	3,018,582	291,319	(5,066,439)	5,633,782
Income tax expense	-	-	-	(672,454)	(672,454)
Segmental profit for the year	7,390,320	3,018,582	291,319	(5,738,893)	4,961,328
Total assets	81,443,417	33,265,621	-	4,450,529	119,159,567
Total liabilities	-	-	-	78,406,404	78,406,404

24 RELATED PARTIES

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

(a) Transactions included in statement of comprehensive income are as follows:

	2015	2014
	RO	RO
Directors' sitting fees (note 5)	**57,500**	59,500
Proposed directors' remuneration (note 5)	**100,652**	95,006
Installment finance income:		
Other related parties	**4,172**	4,035

24 RELATED PARTIES (continued)

(b) Transactions relating to instalment finance debtors during the year are as follows:

	2015	2014
	RO	RO
Disbursements:		
Other related parties	**27,001**	44,203
Collections:		
Other related parties	**49,744**	39,872

(c) Amounts due from related parties:

	2015	2014
	RO	RO
Installment finance debtors due from:		
Other related parties	**55,717**	76,758

No provision is required in respect of loans given to the related parties.

(d) Compensation of the key management personnel is as follows:

	2015	2014
	RO	RO
Salaries and allowances	**453,984**	428,367
End of service benefits	**20,328**	18,014
	474,312	446,381

Salaries and allowance for 2015 include management incentives of RO 208,900 (2014 - RO 194,226).

25 CONTINGENT LIABILITIES

At 31 December 2015, there were contingent liabilities of RO Nil (2014 - RO 94,131) in respect of financial guarantees given to banks in the normal course of business on behalf of customers from which it is anticipated that no material liabilities will arise. Such guarantees are covered by counter guarantees from the customers in addition to other securities.

26 FAIR VALUE INFORMATION

It is the Company's intention to hold loans and advances to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The Company considers that the fair value of financial instruments at 31 December 2015 and 2014 are not significantly different to their carrying value at each of those dates

26 FAIR VALUE INFORMATION (continued)

Fair value hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

	31 Dec 2015	**Level1**	**Level2**	**Level3**
	RO	**RO**	**RO**	**RO**
Available-for-sale investments	**-**	**-**	**554,150**	**-**

	31 Dec 2014	Level1	Level2	Level3
	RO	RO	RO	RO
Available-for-sale investments	-	-	554,150	-

During the reporting periods ended 31 December 2015 and 31 December 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

27 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to variety of financial risks: credit risk, market risk (including foreign exchange risk and interest rate risk), liquidity risk and operational risk. The Company continuously strive to face challenges and exploit the opportunities the market offers through a process of proactively assessing market forces and economic factors to maintain a competitive edge by devising appropriate strategies to mitigate and manage risk.

The Board of Directors set the overall risk parameters and tolerances and the significant risk management policies. The Risk Committee of the Board reviews and reports to the Board of Directors on the Company's risk profile and risk taking activities. The Management Committee chaired by Chief Executive Officer has the primary responsibility of sanctioning risk taking activities and risk management policies within the overall risk parameters and tolerances defined by the Board of Directors. The Risk Management Committee (the committee) comprising of the risk management officials is chaired by the Deputy Chief Executive Officer provides the forum for review and approval of risk measurement methodologies, risk control processes and the approval of new products. Review of risks arising from external factors is also evaluated. The committee also reviews all the risk policies and limits that require the formal approval of the Management Committee. The risk management control process is based on a detailed structure of policies, procedures and limits and comprehensive risk measurement and management systems for the control, monitoring and reporting of risks. Periodic reviews by the internal and external auditors and regulatory authorities subject the risk management processes to additional scrutiny that help to further strengthen the risk management environment.

27 FINANCIAL RISK MANAGEMENT (continued)

(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. Credit risk is crucial for the Company's business; therefore management carefully manages its exposure to credit risk. Well defined policies and processes are in place at both the business units and corporate level that are intended to ensure that risks are assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counter party, and portfolio levels. Overall exposures are also evaluated to ensure a broad diversification of credit risk. The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography. The Company attempts to control credit risk through continuously reviewing and improving its credit policies to meet the demanding needs of market, setting and monitoring credit exposures, limiting transactions with specific counter parties and assessing their creditworthiness and restricting exposure to any particular industry or individuals or groups of customers in a particular region / location. In addition, to mitigate the risk of unforeseen eventualities, adequate security cover is maintained over the assets of the borrowers. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the Company's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Company does not occupy repossessed properties for business use.

Maximum exposure to credit risk

The table below gives the maximum exposure to credit risk. The maximum exposures are shown at gross before the effect of mitigation through the use of collateral agreements:

	Gross maximum exposure 2015 RO	Gross maximum exposure 2014 RO
Installment finance debtors	**125,491,651**	126,322,676
Bank balances and deposits (including deposit with CBO)	**1,287,622**	1,062,947
Other receivables	**121,018**	119,300
Total credit risk exposure	**126,900,291**	127,504,923

Concentrations of credit risk

Concentration of risk is managed by client/counterparty and by industry sector exposures. There is no significant credit exposure relating to installment finance debtors to any single counterparty as of 31 December 2015. An industry sector analysis of the Company's installment finance debtors (net) before taking into account collateral held is as follows:

		2015 RO	2014 RO
Personal/car loans		**32,963,223**	37,113,112
Business loan	- Construction contracts	**31,271,382**	28,022,326
	- Services	**27,291,583**	22,344,015
	- Construction equipment	**16,639,057**	15,075,840
	- Other	**4,018,055**	3,829,897
	- Trading	**3,362,652**	3,742,800
	- Manufacturing	**2,903,521**	4,581,048
		118,449,473	114,709,038

27 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is regularly monitored by the Company.

Aging analysis of past due but not impaired installment finance debtors after deduction of unearned finance income is set out as below:

	2015 RO	2014 RO
1 to 89 days	**13,317,552**	11,830,692

Aging analysis of due/past due and impaired installment finance debtors after deduction of unearned finance income is set out as below:

	2015 RO	2014 RO
90 to 364 days	**3,060,407**	3,052,629
365 days and above	**7,961,429**	12,611,469
Total	**11,021,836**	15,664,098

All loans extended by the Company are against security of assets financed and in certain cases, if required, against additional security. All loans are additionally secured by personal guarantees of the borrowers.

Renegotiated installment finance debtors

Renegotiated finance debtors as at 31 December 2015 was RO 1.93 million (2014 - RO 6.36 million). Out of these finance debtors amounting to RO1.54 million (2014 - RO 4.38 million) were impaired at the time of renegotiation.

The Company limits its credit risk with regard to bank deposits by dealing with reputable banks. The table below shows the short-term deposits and bank balances with the counterparties analysed by rating as provided by Moody's Investor's Services:

	2015 RO	2014 RO
A-1	**127,447**	159,322
A-3	**665,326**	401,342
Unrated	**284,849**	332,283
	1,077,622	892,947

27 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk

Market risk is the risk of loss due to adverse changes in interest rates and foreign exchange rates. The Company does not actively participate in trading in debts, equity securities, and foreign exchange or derivative instruments.

Foreign exchange risk

Currency risk arises from the possibility of changes in the value of financial assets due to changes in the foreign currency rates. The Company liabilities comprise of borrowings in US Dollars in addition to local currency borrowings. As there is an exchange parity agreement between Oman and the United States of America, the exchange rates have remained stable over the years. Additionally, management maintains a “foreign currency reserve” to mitigate foreign exchange risk.

Interest rate risk

Interest rate risk is the uncertainty of future earnings resulting from fluctuations in interest rates. The risk arises when there is a mismatch in the assets and liabilities, which are subject to interest rate adjustment within a specified period. The Company manages this risk by matching the re-pricing of assets and liabilities and through risk management strategies. The loans extended by the Company are for periods varying from one to over five years are at fixed interest rates, albeit with interest variance clause. However, any re-pricing of the Company’s liabilities by its lenders due to economic factors would result to some extent in interest rate risk. The Company mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates.

The interest rates on borrowings with banks are subject to change upon re-negotiation of the facilities which takes place on an annual basis in the case of overdrafts and at more frequent intervals in the case of short-term loans. The Company uses sensitivity analysis to analyse and measure interest rate on the variable cost of borrowings. Management estimates that the Company’s interest costs are sensitive to the extent that change in 100 basis points in the average funding cost would change net interest income by RO 111,058 (2014 - RO 182,249). The Company’s exposure to interest rate risk is analysed in the following tables.

27 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate risk (continued)

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

	Effective interest rate in %	0-6 months RO	6 to 12 months RO	1 to 2 years RO	2 to 3 years RO	More than 3 years RO	Fixed rate or non interest sensitive RO	Total RO
Assets								
Investment securities	-	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	1.00						210,000	210,000
Installment finance debtors	9.57	20,554,989	19,012,233	30,968,570	22,454,345	25,459,336	-	118,449,473
Other receivables	-	-	-	-	-	-	83,568	83,568
Cash and cash equivalents	0.25	200	-	-	-	-	1,155,943	1,156,143
Property and equipment and other assets	-	-	-	-	-	-	2,652,127	2,652,127
Total assets		20,555,189	19,012,233	30,968,570	22,454,345	25,459,336	4,655,788	123,105,461
Equity and liabilities								
Borrowings*		24,244,150	9,890,862	13,252,584	5,121,024	-	-	52,508,620
Corporate deposits*		9,632,735	4,189,125	4,000,000	-	-	-	17,821,860
Creditors and other payables		-	-	-	-	-	7,756,138	7,756,138
Equity and taxation		-	-	-	-	-	45,018,843	45,018,843
Total equity and liabilities		33,876,885	14,079,987	17,252,584	5,121,024	-	52,774,981	123,105,461
Interest rate sensitivity gap		(13,321,696)	4,932,246	13,715,986	17,333,321	25,459,336	(48,119,193)	
Cumulative gap		(13,321,696)	(8,389,450)	5,326,536	22,659,857	48,119,193		

*Borrowings and corporate deposits are at market rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

27 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Company's exposure to interest rate risks. Included in the table are the Company's financial instruments and other assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates as on 31 December 2014:

	Effective interest rate in %	0-6 months	6 to 12 months	1 to 2 years	2 to 3 years	More than 3 years	Fixed rate or non interest sensitive	Total
		RO	RO	RO	RO	RO	RO	RO
Assets								
Investment securities	-	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	1.50						170,000	170,000
Installment finance debtors	9.77	19,748,831	18,877,782	30,363,161	22,500,553	23,218,711	-	114,709,038
Other receivables	-	-	-	-	-	-	44,118	44,118
Cash and cash equivalents	0.25	200	-	-	-	-	955,142	955,342
Property and equipment and other assets	-	-	-	-	-	-	2,726,919	2,726,919
Total assets		19,749,031	18,877,782	30,363,161	22,500,553	23,218,711	4,450,329	119,159,567
Equity and liabilities								
Borrowings*		30,857,010	9,562,702	12,102,765	2,208,339	-	-	54,730,816
Corporate deposits*		5,300,000	4,000,000	6,653,985	-	-	-	15,953,985
Creditors and other payables		-	-	-	-	-	6,435,559	6,435,559
Equity and taxation		-	-	-	-	-	42,039,207	42,039,207
Total equity and liabilities		36,157,010	13,562,702	18,756,750	2,208,339	-	48,474,766	119,159,567
Interest rate sensitivity gap		(16,407,979)	5,315,080	11,606,411	20,292,214	23,218,711	(44,024,437)	
Cumulative gap		(16,407,979)	(11,092,899)	513,512	20,805,726	44,024,437		

*Borrowings and corporate deposits are at market rates.

27 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk is that an entity will encounter when it is unable to meet its obligations at any given time. The Company's conservative liability management policies are designed to ensure that even in adverse situations the Company should be in a position to meet its obligations. In normal conditions the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. The objectives are met through the application of prudent liquidity controls.

The amounts disclosed in table below analyses the Company's financial instruments and other assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances, as the impact of the discounting is not significant. Unutilised credit facilities as on 31 December 2015 were RO 36.41 million (2014 - RO 25.40 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

27 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

31 December 2015	0-6 months	6 to 12 months	1 to 2 years	2 to 3 years	More than 3 years	Non-fixed maturity	Total
	RO	RO	RO	RO	RO	RO	RO
Assets							
Investment securities	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman						210,000	210,000
Installment finance debtors	20,554,989	19,012,233	30,968,570	22,454,345	25,459,336	-	118,449,473
Other receivables and prepaid expenses	121,018	-	-	-	-	-	121,018
Cash and cash equivalents	1,156,143	-	-	-	-	-	1,156,143
Property and equipment and other assets	-	-	-	-	-	2,614,677	2,614,677
Total assets	21,832,150	19,012,233	30,968,570	22,454,345	25,459,336	3,378,827	123,105,461
Equity and liabilities							
Borrowings	24,244,150	9,890,862	13,252,584	5,121,024	-	-	52,508,620
Corporate deposits	9,632,735	4,189,125	4,000,000	-	-	-	17,821,860
Creditors and other payables	6,918,289	405,230	-	-	-	432,619	7,756,138
Equity and taxation	710,587	-	-	-	-	44,308,256	45,018,843
Total equity and liabilities	41,505,761	14,485,217	17,252,584	5,121,024	-	44,740,875	123,105,461
Gap in maturity (excluding off balance sheet)	(19,673,611)	4,527,016	13,715,986	17,333,321	25,459,336	(41,362,048)	
Cumulative gap in maturity	(19,673,611)	(15,146,595)	(1,430,609)	15,902,712	41,362,048	-	
Assets off balance sheet							
Unearned finance income	4,731,904	4,207,932	5,888,636	3,205,596	1,806,376	-	19,840,444
Total assets (including off balance sheet)	26,564,054	23,220,165	36,857,206	25,659,941	27,265,712	3,378,827	142,945,905

27 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

31 December 2015 (continued)	0-6 months	6 to 12 months	1 to 2 years	2 to 3 years	More than 3 years	Non-fixed maturity	Total
	RO	RO	RO	RO	RO	RO	RO
Total assets (including off balance sheet)	26,564,054	23,220,165	36,857,206	25,659,941	27,265,712	3,378,827	142,945,905
Liabilities off balance sheet							
Interest payable on loans	833,327	504,879	450,673	74,673	-	-	1,863,552
Contingent liabilities	-	-	-	-	-	-	-
Total equity and liabilities (including off balance sheet)	42,339,088	14,990,096	17,703,257	5,195,697	-	44,740,875	124,969,013
Gap in maturity	(15,775,034)	8,230,069	19,153,949	20,464,244	27,265,712	(41,362,048)	17,976,892
Cumulative gap in maturity	(15,775,034)	(7,544,965)	11,608,984	32,073,228	59,338,940	17,976,892	

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

27 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

31 December 2014	0-6 months	6 to 12 months	1 to 2 years	2 to 3 years	More than 3 years	Non-fixed maturity	Total
	RO	RO	RO	RO	RO	RO	RO
Assets							
Investment securities	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman						170,000	170,000
Installment finance debtors	19,748,831	18,877,782	30,363,161	22,500,553	23,218,711	-	114,709,038
Other receivables and prepaid expenses	44,118	-	-	-	-	-	44,118
Cash and cash equivalents	955,342	-	-	-	-	-	955,342
Property and equipment and other assets	-	-	-	-	-	2,726,919	2,726,919
Total assets	20,748,291	18,877,782	30,363,161	22,500,553	23,218,711	3,451,069	119,159,567
Equity and liabilities							
Borrowings	30,857,010	9,562,702	12,102,765	2,208,339	-	-	54,730,816
Corporate deposits	5,300,000	4,000,000	6,653,985	-	-	-	15,953,985
Creditors and other payables	5,739,329	335,551	-	-	-	360,679	6,435,559
Equity and taxation	-	-	-	-	-	42,039,207	42,039,207
Total equity and liabilities	41,896,339	13,898,253	18,756,750	2,208,339	-	42,399,886	119,159,567
Gap in maturity (excluding off balance sheet)	(21,148,048)	4,979,529	11,606,411	20,292,214	23,218,711	(38,948,817)	
Cumulative gap in maturity	(21,148,048)	(16,168,519)	(4,562,108)	15,730,106	38,948,817	-	
Assets off balance sheet							
Unearned finance income	4,680,898	4,185,951	5,865,332	3,127,801	1,632,854	-	19,492,836
Total assets (including off balance sheet)	25,429,189	23,063,733	36,228,493	25,628,354	24,851,565	3,451,069	138,652,403

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2015

27 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

31 December 2014 (continued)	0-6 months	6 to 12 months	1 to 2 years	2 to 3 years	More than 3 years	Non-fixed maturity	Total
	RO	RO	RO	RO	RO	RO	RO
Total assets (including off balance sheet)	25,429,189	23,063,733	36,228,493	25,628,354	24,851,565	3,451,069	138,652,403
Liabilities off balance sheet							
Interest payable on loans	846,046	493,411	335,453	26,955	-	-	1,701,865
Contingent liabilities	94,131	-	-	-	-	-	94,131
Total equity and liabilities (including off balance sheet)	42,836,516	14,391,664	19,092,203	2,235,294	-	42,399,886	120,955,563
Gap in maturity	(17,407,326)	8,672,068	17,136,290	23,393,060	24,851,565	(38,948,817)	17,696,840
Cumulative gap in maturity	(17,407,326)	(8,735,258)	8,401,032	31,794,092	56,645,657	17,696,840	

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management

The primary objective of the Company's 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. Capital comprises share capital, legal reserve, special reserve, foreign currency reserve and retained earnings, and is measured at RO 44.07 million as at 31 December 2015 (2014 - RO 40.75 million). The Company is already in compliance with the Central Bank of Oman's minimum capital requirement of RO 24 million.

28 COMPARATIVE FIGURES

Certain corresponding figures for 2014 have been reclassified in order to conform with the presentation for the current year. Such reclassifications are not considered material and do not affect previously reported net profit or shareholders' equity.

Staff Get-Together

Staff Get-Together