ANNUAL REPORT 2012

United Finance Company SAOG

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

Behram Keki Divecha
Dy. Chairman

Nasser Ahmed Al Hoqani
Director

Eihab Maqbool Hameed Al Saleh
Director

Fayez Mustafa Mohammed Hassan
Director

Ranga Gorur
Director

Ahmed Mohamed Mansour
Director

Audit Committee

Eihab Maqbool Hameed Al Saleh
Chairman

Nasser Ahmed Al Hoqani
Member

Fayez Mustafa Mohammed Hassan
Member

Ranga Gorur
Member

Ahmed Mohamed Mansour
Member

Credit Committee

Sulaiman Ahmed Al Hoqani
Chairman

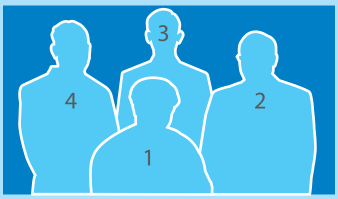
Behram Keki Divecha
Member

Ranga Gorur
Member

Management Team

1. Mansoor Mubarak Al Amri
   Chief Executive Officer

2. D Stanley
   Deputy Chief Executive Officer



3. K T Ramasamy
   AGM - Finance & IT

4. R D S Murthy
   AGM - Recovery & Operations

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	Branch Manager	Tel.	Fax.
Barka	Shobith Agarwal	26883996	26883931
Firq	Piyush Kumar Sinha	25410052	25410595
Ibra	Ashok Seshadri	25570234	25570235
Ibri	Stany D'Souza	25692402	25688668
Mawaleh	Mansoor Al Barwani	24545597	24540591
Salalah	Allan Benjamin D'Costa	23289668	23289446
Sohar	Jha Swapnil	26843626	26843650

Bankers

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

Statutory Auditors

PricewaterhouseCoopers

Sulaiman Ahmed Al Hoqani
Chairman

Dear Shareholders,

On behalf on the Board of Directors, it is my pleasure to present to you the Annual Report of your company for the year ended 31st December 2012.

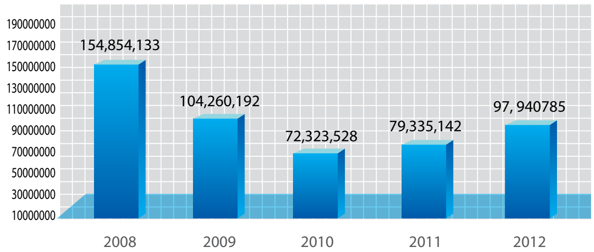
The Economic Environment

In 2012 Oman continued its growth at a steady pace despite the volatile financial environment that prevailed across the global markets. Backed by stable oil prices, the economy remained insulated from the financial crisis faced by some of the developed countries. The increased spending by the government on infrastructure projects coupled with private sector participation in developmental projects triggered the pace of economic activity and provided adequate opportunities for expansion of business across all segments and opened up avenues for employment. The market provided a conducive environment for banks and finance companies to expand credit. The financial services sector as a whole benefited from the market potential and registered a healthy growth.

The year under review

Your Company registered good performance during 2012. The loan book grew from RO 79.3m as at 31 Dec 2011 to RO 97.9m as at 31 Dec 2012 registering a year-on-year growth of around 23.5%. The company recorded a net profit of RO 3.40m for the year 2012 as against RO 2.85m for the previous year, despite the competitive market conditions and decline in lending rates. The improvement in profitability is attributed to the increase in loan portfolio coupled with reduction in borrowing cost, controlling overheads and reduction in impaired assets. Concerted efforts on the recovery front aided in bringing down the level of impaired assets from RO 20.5m as at 31 Dec 2012 to RO 15.8m; a decrease of 23%.

Net Installment Finance Debtors



During 2012 the company provided RO 208K for impaired loans, as against RO 934K in 2011. The company holds a cumulative provision of RO 8.28m as at Dec 2012 and a Special Reserve of RO 1.96m to guard against delinquencies from unforeseen quarters. Considering the improvement in market environment and the collection measures pursued by the company, the management is confident of reduction in impaired loans and write-back of provisions in the ensuing year.

Banks continued their support through renewal / enhancement of credit facilities extended to your company, which helped in funding the growth in assets and maintain a comfortable cash flow throughout the year.

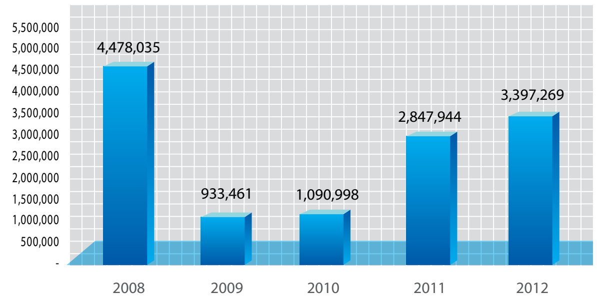
Dividend

The Board of Directors recommended a cash dividend of 10% and stock dividend of 8% from the distributable surplus of the company, subject to approval of the Central Bank of Oman and the shareholders at the Annual General Meeting.

Looking Ahead

The implementation of mega infrastructure projects that commenced in the last few years is progressing at a healthy pace. These projects include the expansion / construction of airports, seaports and dualisation of arterial roads connecting the various regions. The execution of these projects is scheduled to extend over the next few years and provide adequate opportunities for accelerated growth in the ensuing year and beyond. In addition the government has embarked on feasibility studies for implementation of the ambitious railway project, which is likely to give a further boost to the economy in the years ahead.

Net Profit



The budget of the Sultanate of Oman for the year 2013 indicates increased outlay on developmental projects to meet the growing civic needs of country and diversification into non-oil sectors including promotion of tourism. These long-term developmental programs, we believe, would throw open sustained opportunities to the business community for growth through expansion. This, coupled with the initiatives taken by the government for development of free trade zones to promote commercial activities in various regions is expected to provide opportunities for growth of SMEs and LCCs. These developments as they unfold would open up avenues for investment, private sector participation and increase in employment opportunities and contribute to the balanced growth of the economy. Supported by stable oil prices, which is expected to remain above the budgeted level, the economy is on a sound footing for sustained growth in the ensuing years.

UFC would pursue its growth plans by optimizing the available business opportunities, albeit at a steady pace, to grow its loan book without compromising the asset quality. This would be achieved through stringent credit evaluation and focus on spreading risk to avoid credit concentration to achieve a balanced portfolio. The company has adequate unutilized credit limits and the management is confident of mobilizing additional resources to meet its budgeted business requirement. We believe, the market would provide adequate opportunities to expand business but lending rates are expected to be very competitive resulting in lower net margins. Concerted efforts on the recovery front would be pursued to reduce the level of impaired loans and arrest the incidence of fresh delinquencies. The company would also explore avenues for increasing operational efficiency through optimum utilization of resources to improve profitability.

Human Resources

UFC places special emphasis on development of human resources. Apart, from recruiting aspiring fresh Omanis and grooming them through continuous on the job training to equip them with the required skill sets to independently handle tasks assigned to them, the company also concurrently reviews the training needs of its employees and imparts required training to take on additional responsibilities to achieve their career growth aspirations. During the year the company recruited additional Omani staff to complement the governments initiative to provide job opportunities to aspiring Omanis.

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

UFC has been involved in corporate social responsibility initiatives in a modest way. The company has been consciously participating in social programs by conducting regular blood donation camps, offering employment to the physically challenged and extending funding to SMEs and local community contractors in interior pockets; who provide employment opportunities and a source of livelihood for people living in the vicinity of their camps.

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 also like to place on record my appreciation and thank the Management and staff for their individual and collective efforts in improving the level of performance and achieving better 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 and the citizenry.

May God bless all of us.

Sulaiman Ahmed Al Hoqani

Chairman

Mansoor Mubarak Al Amri
Chief Executive Officer

Management Discussion and Analysis for the year 2012

Economic Overview

During 2012 most of the developed economies in the West and Euro zone were under the grip of various economic pressures including rising debt burden, unemployment, currency fluctuation, sluggish demand and natural calamities. While these economies are still scrambling to recover the impact of global financial crisis that swept the financial markets across the world, developing economies have since staged a comeback and registered modest growth. However, with a slew of remedial measures being pursued by the governments' of developed nations to counter the recessionary trends, the financial markets are expected to witness a turnaround, albeit at a subdued pace.

Backed by stable oil prices, Oman economy remained insulated from the effects of the volatile economic conditions witnessed across the international financial markets. In 2012, economic activity progressed at a steady pace with the economy expected to register a GDP growth of around 8%. The government's increased outlay on developmental projects aided in boosting the pace of economic activity. Apart from pursuing mega infrastructure projects in progress, the government has embarked on various new projects to cater to the growing infrastructure, civic and housing needs of the economy.

The government's thrust on diversification into non-oil segments to achieve balanced growth also gained momentum with additional investment in tourism, development of free trade zones and industrial estates to support this objective. The increase in government spending coupled with private sector participation in the development activities triggered the pace of economic growth. These developments have opened up numerous avenues for expansion of business for the construction and allied sectors in particular and other sectors as well. Further the government's initiative to provide employment opportunities to local youth in government and private sectors, promote SME's and self-employment schemes aided in boosting consumer spending.

During 2012 the local money market witnessed good liquidity coupled with competitive interest rates. Banks had adequate liquidity to fund the business opportunities that unfolded as an offshoot to the increased spending and development initiatives pursued by the government. The increase in demand for capital goods including equipment and vehicles and working capital requirements of business entities provided adequate avenues for expansion of credit by banks and finance companies and grow their loan books.

The government's plan to increase the outlay on infrastructure and other developmental projects in 2013 and beyond is expected to drive the pace of economic activity and provide avenues for sustained growth in the ensuing years.

Industry Overview

Oman witnessed steady growth in 2012 despite the sluggish trend that prevailed across developed economies in the West and the European sub-continent. The prudent and timely initiatives pursued by the government aided in boosting the momentum of economic activity to foster growth. Apart from pursuing ongoing projects, the government embarked on various developmental projects which, provided ample opportunities for the private sector to expand operations by participating in these developmental activities. The market witnessed a steady increase in the demand for capital goods from the business community to mobilize additional resources to meet their increased needs. This coupled with the recruitment drive to induct additional manpower into the government and private sectors triggered an increase in consumer spending on cars and white goods.

The market witnessed a steady increase in demand for capital goods and working capital requirements and provided a favourable environment for banks and finance companies to expand credit. The banking sector as a whole recorded a significant growth in their loan portfolio during 2012. The improvement in business prospects helped in improving the cash flow of SME's and contractors to repay their loan commitments to lenders resulting in a decline of impaired loans. Increase in loan disbursements coupled with improvement in asset quality resulted in improvement in earnings despite the decline in lending rates.

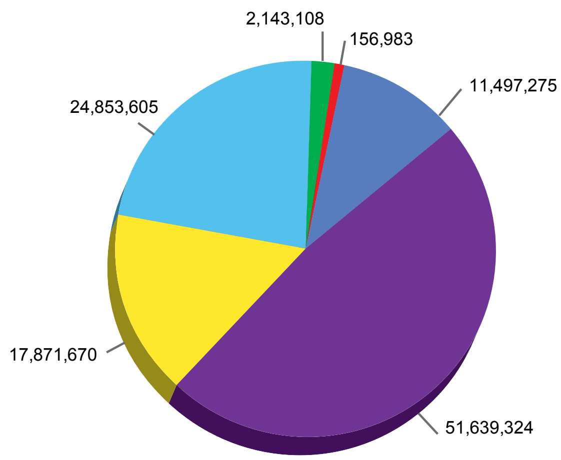
Opportunities & Threats

The government's continued spending on infrastructure projects is the key driving force behind the pace of economic activity. Implementation of ongoing projects coupled with commencement of various new projects is expected to boost economic growth. The mega projects undertaken by the government are in various stages of execution and are scheduled to extend over the next few years. In addition the government has proposed to take up the ambitious railway project connecting all major seaports in the country. This long-term project involves huge investment and its implementation would extend over many years. The government's focus on diversification into non-oil segments through investment in development of industrial estates, setting up of free trade zones, promotion of tourism projects, extending funding to promote SME's and self employment is expected to foster balanced growth in the ensuing years.

The diversified approach of the government to achieve balanced growth would open up ample avenues for the private sector to increase their scale of operation. These developments are expected to trigger the demand for capital goods and provide opportunities for employment. The recruitment drive by the government has increased in the purchasing power of the local youth, which in turn has triggered the demand for cars and white goods. The market is poised to offer adequate potential for banks and finance companies to expand credit by catering to the fund requirements of business entities for purchase of additional equipment, machinery and vehicles and bridge the gap in their working capital needs.

Oil prices remained fairly stable in the past and are expected to be buoyant against the backdrop of sustained demand. With oil prices projected to remain above the budgeted level, the economy is on a firm foundation and poised for sustained growth over the next few years. Though the market is expected to be competitive, we believe it would provide adequate opportunities for growth to banks and finance companies to expand their business and grow their assets.

However, the entry of new Islamic banks coupled with existing banks embarking on extending Islamic banking products and services, growing competition from banks entering into Retail segment, competition from in-house financing by major



Product Wise Loan Portfolio

vehicle dealers and changes in regulations governing the financial services sector are expected to have an effect on the performance of finance companies.

Analysis of Segment & Product-wise performance

UFC extends finance to the retail and corporate segments with the objective of maintaining a balanced loan portfolio. As at December 2012 its corporate exposure stood at 65% with the remaining 35% representing retail exposure. While assets used by the borrowers for income generation are classified under corporate segment, assets used for personal purpose are classified under retail segment. The performance of loan portfolio is continuously reviewed by the Management based on the repayment record, income spreads, value at risk and incidence of delinquencies and amends its lending strategy to reduce credit concentration risk and improve asset quality. In addition, the credit policy of the company is periodically refined based on market information and inputs from Risk Management's evaluation of the loan portfolio to guard against internal and external factors that trigger delinquencies. During the 2–3 years, the incidence of delinquencies have significantly reduced through tightening of credit norms and careful evaluation of proposals independently by Credit and Risk Management departments. Despite loans extended by the company being secured by the assets financed, additional security by way of assignment of receivables, collateral assets, personal guarantees of borrowers and counter parties are obtained as a conservative measure to guard against unforeseen eventualities depending on the merits of each case.

Outlook

The government's initiative to continuously pursue developmental projects of various magnitudes has supported sustained growth of the economy despite the uncertain economic conditions prevailing across global markets. Government's focus on diversification into non-oil segments to reduce the dependence on oil revenues over the years has gained momentum and is expected to promote growth in all spheres. The mega projects under execution coupled with proposed projects to be taken up in the current year are expected to extend over a few years and provide opportunities for sustained growth. The ambitious railway project involving huge investment is under evaluation by the government and is expected to take off in the near future. The implementation of this project would extend over a few years and provide ample opportunities for private sector participation and open up avenues for sustained growth. These developments, coupled with the strong fundamentals and resilient outlook of the banking sector is expected to trigger the pace of economic activity. Equipped with good liquidity and competitive interest rates banks and finance companies are poised to cash in on the business opportunities as they unfold to grow their assets.

UFC would focus on growing its loan book, albeit at a steady pace by exploiting the opportunities provided by the emerging market. The company's prime emphasis would be to improve its asset quality through stringent evaluation of fresh proposals and tightening its collection mechanism to mitigate the incidence of impairment. The company would pursue its objective of reducing credit concentration by focusing on diversification and spreading of risk through maintaining a balanced portfolio mix by adopting suitable lending strategy. The management would continue its sustained efforts and adopt stringent measures to improve collection efficiency and reduce the level of impaired loans. This would result in reduction of impaired loans and write back of provisions in the ensuing year. Under the able guidance of the Board of Directors, the Management team and dedicated staff of the company would collectively strive to achieve better operational efficiency and improve financial performance and returns to the stakeholders in the year ahead.

UFC has all through laid emphasis on providing employment opportunities to aspiring Omanis and encouraging local staff in achieving career growth. The company conducts regular training programmes to update the knowledge and skill sets of staff to improve their competence and equip them to take on higher responsibilities as they move up their career path. During 2012 the company inducted a fresh batch of trainees in coordination with Ministry of Manpower. These trainees were inducted into the roles of the company on completion of their training course and probation period. The company is continuously on the look out for deserving local talent to providing them a promising 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 helps in minimizing 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 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 meets 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.

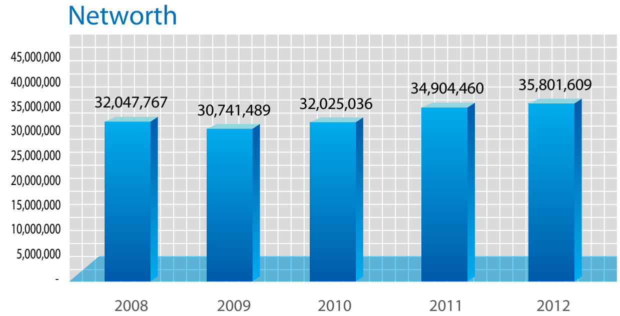
Internal control systems & their adequacy

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 Moore Stephens, 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 commensurate 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, post approval by the Board.

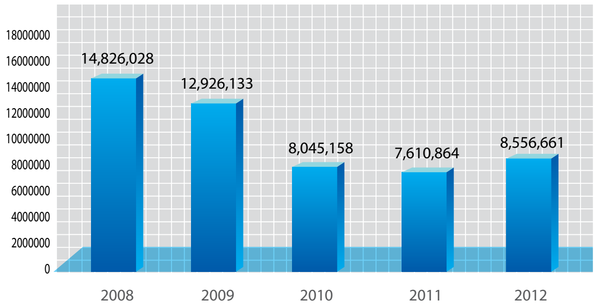
The role of internal audit is further strengthened through the compliance function to ensure conformity with statutory and regulatory requirements and the policies and procedures of the company. The compliance function is independently headed by the Chief Compliance Officer who is an experienced and 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.

Discussion on financial & operational performance

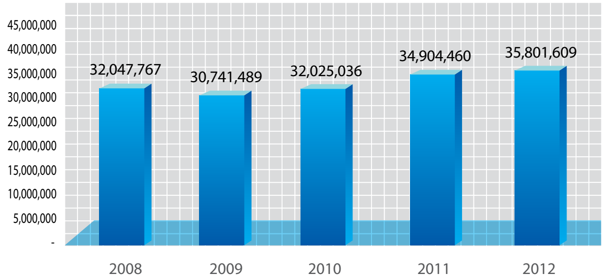
UFC recorded good performance during 2012. The company strengthened its relationship with vehicle and equipment dealers and cashed in on the market to grow its loan book, albeit with emphasis on asset quality. The company disbursed fresh loans of RO 59.3m during 2012 as against RO 50.8m in



Installment Finance Income



Networth



dividend of 8% for 2012 subject to approval of the shareholders of the company at the Annual General Meeting.

With improvement in asset quality and profitability, banks reposed confidence in the company and 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 meet the business needs of the company. The market was very competitive and witnessed a decline in lending rates. However, a corresponding decline in interest cost on borrowings aided in maintaining a reasonable net interest margin.

The company provided RO 208K as additional provision during the year. With the revival in market conditions, the Management is confident of improving collection performance and reducing impaired loans in the ensuing year.

Company's Growth at a Glance

(RO '000)

Particulars	2010	2011	2012
Total Assets	79,672	87,336	**103,888**
Share Capital	25,001	25,001	**25,001**
Net Worth	32,025	34,904	**35,802**
Finance Debtors	72,324	79,335	**97,941**
Bank Borrowings	29,919	29,819	**47,683**
Gross Income	8,563	8,719	**9,394**
Net Finance Income	4,256	5,613	**6,318**
Net Profit	1,091	2,848	**3,397**

PRICEWATERHOUSECOOPERS

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REPORT OF FACTUAL FINDINGS
TO THE SHAREHOLDERS OF UNITED FINANCE COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) Circular number 16/2003, dated 29 December 2003 with respect to the Board of Directors' Corporate Governance Report of **United Finance Company SAOG** ('the company') as at and for the year ended 31 December 2011 and application of the corporate governance practices in accordance with CMA Code of Corporate Governance issued under Circular number 11/2002 dated 3 June 2002 and as supplemented by the Rules and Guidelines on Disclosure by Issuer of Securities and Insider Trading approved by Administrative Decision number 5/2007 dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision number 1/2009 dated 18 March 2009 (collectively the Code and additional regulations and disclosures). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements. The procedures, as stated in Circular number 16/2003, were performed solely to assist you in evaluating the company's compliance with the code as issued by the CMA.

We report our findings on the procedures performed in the following paragraph.

We found the Board of Directors' Corporate Governance report reflects the company's application of the provisions of the code and additional regulations and disclosures 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 accompanying Corporate Governance Report.

Had we performed additional procedures or had we performed an audit or a review in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' Corporate Governance Report included in its annual report for the year ended 31 December 2011 and does not extend to any financial statements of United Finance Company SAOG taken as a whole.

Kenneth on MacFarlane
PricewaterhouseCoopers LLP

29 February 2012
Muscat, 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 4th February 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 a separate paragraph on Corporate Social Responsibility is being included in this year's Annual Report.

Salient features of the governance regulations in 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
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 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 five 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 all 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
Independent, Non-Executive Directors (This is based on the definition of "Independent Directors" given in CMA's Circular No. 11 dated 3.6.2002, as amended by Circular No. 1/2003)	Shaikh Sulaiman Ahmed Al Hoqani (Chairman) Mr. Behram Keki Divecha (Deputy Chairman) Mr. Eihab Maqbool Hameed Al Saleh Mr. Fayez Mustafa Mohd. Hassan Mr. Ranga Gorur Mr. Ahmed Mohamed Mansour Mr. Hussam Hisham Omar Bostami

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, he is 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. Behram Keki Divecha** is a Business Management Graduate from the Mumbai University. He has vast experience in business development, project development, crisis management and profit center management. He has been associated with the OHI Group of Companies since 1985 and currently holds the position of Director & Chief Executive Officer in Oman Holdings International Co. SAOG. He is the Deputy Chairman of United Finance Co. SAOG and is also on the boards of Oman Hotels & Tourism Co. SAOG, Oman Chlorine SAOG and Al Ahlia Insurance Co. SAOC.

3 **Mr. Eihab Maqbool Hameed Al Saleh** holds a Bachelor of Business Administration degree from The George Washington University majoring in international business and marketing. After completing his education in USA, he worked in HSBC Bank Middle East Limited in various Senior roles from 1998 till August 2008. He is presently the Chief Operating Officer of the OHI Group of Companies. Besides being a Director of UFC, he is also on the boards of Oman Hotels and Tourism Co. SAOG and Oman Holdings International Co. SAOG.

4 **Mr. Fayez Mustafa Mohd. Hassan** holds a Bachelor Degree in Accounting from the University of Jordan. He has 32 years experience in the field of auditing, finance and investment and is currently the General Manager of Al Saud Company in Sharjah. Besides being a Director of United Finance Co. SAOG, he is also on the boards of Global Financial Investment Holding Co. SAOG, Muscat Gases Co. SAOG and Oman Education & Training Investment Co. SAOG.

5 **Mr. Ranga Gorur** holds a Bachelor of Science degree and is a Fellow Member of the Institute of Chartered Accountants of India and an Associate Member, CPA (Australia). He has over 34 years of post-qualification experience in Operations, Planning, Management Accounting, Financial Management, Systems Planning, Taxation & Strategic Business Planning. He has experience in a wide range of private sector operations in manufacturing, projects, services & value added reselling. Presently he is heading the finance function of a large business group in the Sultanate of Oman with several companies in the group.

Besides being a Director of UFC, he is also on the board of Computer Stationery Industry SAOG.

6 **Mr. Ahmed Mohamed Mansour** is a B.Sc. graduate majoring in Accounting from the Ain Shams University, Cairo, Egypt. He has worked as Senior Auditor in reputed audit firms like Deloitte & Touch and Arthur Andersen & Co., Dubai, UAE. He has worked as Finance Manager in Gulf Cement Company (P.S.C.), Ras Al Khaimah, UAE. He has about 21 years experience in accounts, treasury & investments management, IT, compliance and audit. Currently he holds the position of Finance Manager in Al Salem Co. Ltd. (LLC.), Sharjah, UAE.

7 **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 & 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 the Group Internal Audit & Compliance Manager with Global Financial Investment Holding Co. SAOG, Muscat, Oman. He is also on the boards of Construction Material Industries SAOG, Al Madina Logistic Services Co. SAOC and Omani Sayyarat Co. SAOC. Previously he was on the boards of Oman Hotels & Tourism Co. SAOG and Oman Filters Industry SAOG.

Details of attendance of Board Members for Board Meetings during 2012

	Board Member	Board Meeting Dates				
		25/01/2012	25/04/2012	18/07/2012	22/10/2012	19/12/2012
1	Shaikh Sulaiman Ahmed Al Hoqani, Chairman	YES	YES	YES	YES	YES
2	Mr. Behram Keki Divecha, Dy.Chairman	YES	YES	YES	YES	YES
3	Mr. Eihab Maqbool Hameed Al Saleh	YES	YES	YES	YES	YES
4	Mr. Fayez Mustafa Mohd. Hassan	YES	YES	YES	YES	YES
5	Mr. Ranga Gorur	YES	YES	YES	YES	YES
6	Mr. Ahmed Mohamed Mansour	YES	YES	YES	YES	YES
7	Mr. Hussam Hisham Omar Bostami#	-	YES	YES	YES	YES
8	Mr. Nasser Ahmed Al Hoqani*	YES	-	-	-	-

**Mr. Nasser resigned from the Board on 22.4.2012*
#Mr. Hussam joined the Board on 25.4.2012

Details of attendance of Board members for AGM during 2012

	Board Member	AGM 21.03.2012
1	Shaikh Sulaiman Ahmed Al Hoqani, Chairman	No
2	Mr. Behram Keki Divecha, Dy.Chairman	Yes
3	Mr. Nasser Ahmed Al Hoqani	Yes
4	Mr. Eihab Maqbool Hameed Al Saleh	Yes
5	Mr. Fayez Mustafa Mohamed. Hassan	No
6	Mr. Ranga Gorur	Yes
7	Mr. Ahmed Mohamed Mansour	No
8	Mr. Hussam Hisham Omar Bostami	*

**Mr. Hussam was not a board member on the AGM date.*

Detail 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. Behram Keki Divecha, Dy.Chairman	-	3
3	Mr. Eihab Maqbool Hameed Al Saleh	-	2
4	Mr. Fayez Mustafa Mohamed. Hassan	-	3
5	Mr. Ranga Gorur	-	1
6	Mr. Ahmed Mohamed Mansour	-	-
7	Mr. Hussam Hisham Omar Bostami	-	1

III Audit Committee and other committees:

1. Brief description of terms of reference:

A. Audit Committee

- Considering the name 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 as to whether auditors have full access to all relevant documents.
- Checking financial fraud particularly fictitious and fraudulent portions of the financial statement. 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 arose.
- 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 frauds, if any, committed by staff members and / or borrowers.
- Review and institute 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.

B. Credit Committee

- Decide on all proposals beyond 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 periodically, at least once in six months, the adequacy of provisions based on management reports.

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

A. Details of attendance of Board Members for Audit Committee Meetings during 2012

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	Member of the committee	Member of the committee
	Mr.Eihab Maqbool Hameed Al Saleh	Mr. Nasser Ahmed Al Hoqani#	Mr.Fayez Mustafa Mohd. Hassan	Mr.Ahmed Mohamed Mansoor	Mr. Ranga Gorur *	Mr. Hussam Hisham Omar Bostami
25.01.12	YES	YES	YES	YES	YES	-
25.04.12	YES	-	YES	YES	YES	-
18.07.12	YES	-	YES	YES	YES	YES
22.10.12	YES	-	YES	YES	YES	YES

** Member of two committees*

 # Mr. Nasser resigned from the Board on 22.4.2012.

B. Details of attendance of Board Members for Credit Committee Meetings during 2012

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.Behram Keki Divecha	Mr.Ranga Gorur*
25.01.12	YES	YES	YES
25.04.12	YES	YES	YES
18.07.12	YES	YES	YES
22.10.12	YES	YES	YES
19.12.12	YES	YES	YES

** Member of two committees*

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.

The current term of the Board will expire on 27.03.2013 as per Commercial Companies Law, on which date an election will take place.

V Remuneration of directors and 4 members of top management:

A. Board of Directors have been paid amount of RO 53,000 as sitting fees and a total amount of RO 37,374 has been provided for as board remuneration.

S.No	Board Members	Sitting Fees Paid	Proposed Remuneration
1	Shaikh Sulaiman Ahmed Al Hoqani, Chairman	8,500	7,374
2	Mr. Behram Keki Divecha, Dy.Chairman	7,500	5,000
3	Mr. Nasser Ahmed Al Hoqani	1,500	-
4	Mr. Fayez Mustafa Mohamed Hassan	7,000	5,000
5	Mr. Eihab Maqbool Hameed Al Saleh	7,000	5,000
6	Mr. Ranga Gorur	9,500	5,000
7	Mr. Ahmed Mohamed Mansour	7,000	5,000
8	Mr. Hussam Hisham Omar Bostami	5,000	5,000
		53,000	**37,374**

B. During the year the company incurred an annual cost, including variable component, of RO 398,270 in respect of its 4 top members of Management. This comprises of RO 229,764 towards salary and allowances, RO 147,440 towards variable incentives and RO 21,066 towards end of service benefits.

The employment contracts of 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.

C. Details of sums paid to Board of Directors and members of top Management:

Sl. No	Management Members	Travel Expenses (RO)
1	Mr. Mansoor Mubarak Al Amri	558
2	Mr. R.D.S Murthy	388

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 4 years. During 2011/2012 the company had no occasion to attract penalties from Central Bank of Oman. During the years 2009 and 2010, the company has paid RO 61,000 and RO 12,500 respectively 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. These are also forwarded to the Bahrain Bourse, for information of the investors and Press in Oman.
- Management Discussion and Analysis report forms part of the Annual Report.

VIII A. Market Price Data:

Month	High	Low	No. of days traded	Financial Sector MSM Index (Monthly Average)
January	0.128	0.120	22	5,649.504
February	0.126	0.115	19	5,654.749
March	0.137	0.110	20	5,873.904
April	0137	0.113	21	5,894.911
May	0.131	0.123	19	5,732.710
June	0.133	0.128	10	5,711.188
July	0.135	0.121	4	5,482.278
August	0.140	0.125	10	5,476.266
September	0.135	0.129	16	5,569.471
October	0.130	0.121	7	5,655.307
November	0.131	0.126	11	5,632.098
December	0.157	0.128	15	5,642.561

Shares are quoted based on RO 0.100 as par value

B. Distribution of shareholding:

SHAREHOLDERS (5% and ABOVE) AS ON 31.12.2012					
Sl. No.	Name	Nationality	Class of Equity	No. of Shares	%
1	Oman Hotels & Tourism Company SAOG	Omani	Ordinary	51,102,387	20.440%
2	First National L.L.C.	Omani	Ordinary	29,366,044	11.746%
3	First Global Financial Services LLC.	Omani	Ordinary	24,660,280	9.864%
4	Sulaiman Ahmed Said Al Hoqani	Omani	Ordinary	24,860,071	9.944%
5	Salem Abdulla Salem Al Housani	Emirati	Ordinary	16,573,188	6.629%
6	Al Saud Company Ltd.	Emirati	Ordinary	15,342,105	6.137%
7	International Investment Company LLC.	Omani	Ordinary	13,786,059	5.514%
	Total			**175,690,134**	**70.27**
	Others			**74,321,886**	**29.73**
	Grand Total			**250,012,020**	**100.00**

IX Professional profile of PwC : Statutory Auditor

PwC is a global network of firms operating in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy.

Established in the Middle East for 40 years, PwC has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 2,500 people. For further details please see www.pwc.com/middle-east.

PwC has been established in Oman for over 40 years and the Firm comprises 3 partners, including one Omani national, and over 135 professionals and support staff. Expert assurance, tax and advisory professionals are able to combine internationally acquired specialist consulting and technical skills with relevant local experience.

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

X Details of audit fees for the year 2012

Audit Fees	RO
Fee for annual audit	15,000

XI Acknowledgement by Board of Directors

The Directors are required by the Commercial Companies Law 1974, as amended and the Capital Market Authority Administrative Decision 5/2007 to prepare financial statements for each financial year in accordance with the International Financial Reporting Standards (IFRS) to fairly reflect the financial position of the company and its performance during the relevant financial period.

In preparing the financial statements, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent
- ensured that all applicable accounting standards have been followed; and
- prepared financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Directors have the responsibility of ensuring that the Company maintains accounting records that disclose with reasonable accuracy the financial position of the Company and enables them to ensure that the financial statements comply with Commercial Companies Law 1974, as amended from time to time, the Rules and Guidelines on disclosure issued by the Capital Market Authority and the Disclosure Policy of the Company, duly approved by the Board.

The Board affirms its overall responsibility for the Company's systems of internal controls and risk management and for reviewing 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.

Chairman

PRICEWATERHOUSECOOPERS

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Independent auditors' 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 2011 and income statement, statements of other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended and for such internal control as they determine 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 about 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 in 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 accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other legal and regulatory requirements

Further, as required by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading (R&G) issued by the Capital Market Authority (CMA) of the Sultanate of Oman, we report that the accompanying financial statements have been properly prepared, in all material respects, in accordance with the R&G, with the Rules for Disclosure and Proformas issued by the CMA and with the Commercial Companies Law of 1974 as amended.

Kenneth A Macfarlane
PricewaterhouseCoopers LLP

29 February 2012
Muscat, Sultanate of Oman

INCOME STATEMENT

For the year ended 31 December 2012

31 December 2011	**31 December 2012**		Notes	**31 December 2012**	31 December 2011
US$	**US$**			**RO**	RO
19,768,478	**22,225,091**	Installment finance income		**8,556,661**	7,610,864
(5,188,792)	**(5,814,643)**	Interest expense		**(2,238,638)**	(1,997,685)
14,579,686	**16,410,448**	**Net installment finance income**		**6,318,023**	5,613,179
2,879,647	**2,174,023**	Other income	4	**836,999**	1,108,664
(6,303,384)	**(7,675,572)**	Other expenses	5	**(2,955,095)**	(2,426,803)
(333,632)	**(339,937)**	Depreciation	7	**(130,876)**	(128,448)
(2,426,969)	**(539,845)**	Impairment on installment finance debtors - net	8	**(207,840)**	(934,383)
8,395,348	**10,029,117**	**Profit before tax**		**3,861,211**	3,232,209
(998,091)	**(1,205,043)**	Income tax expense	6	**(463,942)**	(384,265)
7,397,257	**8,824,074**	Profit for the year		**3,397,269**	2,847,944
0.029	**0.035**	**Earnings per share for the year (basic and diluted)**	21	**0.014**	0.011

The notes on pages 8 to 33 form an integral part of these financial statements.

Report of the Auditors - page 1

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2012

31 December 2011	**31 December 2012**		Notes	**31 December 2012**	31 December 2011
US$	**US$**			**RO**	RO
7,397,257	**8,824,074**	**Profit for the year**		**3,397,269**	2,847,944
		Other comprehensive income:			
81,766	-	Net movement in fair value of cash flow hedges		-	31,480
7,479,023	**8,824,074**	**Total comprehensive income for the year**		**3,397,269**	2,879,424

The notes on pages 8 to 33 form an integral part of these financial statements.

Report of the Auditors - page 1

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

31 December 2011 US$	**31 December 2012 US$**		Notes	**31 December 2012 RO**	31 December 2011 RO
		ASSETS			
8,983,340	**7,046,687**	Property and equipment	7	**2,712,975**	3,458,586
1,577,932	**1,577,932**	Investment securities	10	**607,504**	607,504
129,870	**233,766**	Deposit with the Central Bank of Oman	11	**90,000**	50,000
206,065,304	**254,391,650**	Installment finance debtors	8	**97,940,785**	79,335,142
2,416,086	**1,368,140**	Deferred tax asset	6	**526,734**	930,193
262,210	**283,392**	Other receivables and prepaid expenses	9	**109,105**	100,951
7,413,735	**3,899,881**	Cash and cash equivalents	12	**1,501,454**	2,854,288
226,848,477	**268,801,448**	**Total assets**		**103,488,557**	87,336,664
		EQUITY AND LIABILITIES			
		Equity			
64,938,187	**64,938,187**	Share capital	13	**25,001,202**	25,001,202
1,372,475	**1,372,475**	Share premium reserve	14	**528,403**	528,403
6,242,148	**7,124,556**	Legal reserve	15(a)	**2,742,954**	2,403,227
4,249,005	**5,087,834**	Special reserve	15(b)	**1,958,816**	1,635,867
764,972	**764,972**	Foreign currency reserve	15(c)	**294,514**	294,514
13,094,150	**13,703,169**	Retained earnings		**5,275,720**	5,041,247
90,660,937	**92,991,193**	**Total shareholders' equity**		**35,801,609**	34,904,460
		Liabilities			
77,451,462	**123,852,655**	Borrowings	17	**47,683,272**	29,818,813
37,987,013	**31,168,831**	Corporate deposits	18	**12,000,000**	14,625,000
19,578,984	**19,617,592**	Creditors and other payables	19	**7,552,773**	7,537,910
1,170,081	**1,171,177**	Taxation	6	**450,903**	450,481
136,187,540	**175,810,255**	**Total liabilities**		**67,686,948**	52,432,204
226,848,477	**268,801,448**	**Total equity and liabilities**		**103,488,557**	87,336,664
0.363	**0.372**	**Net assets per share**	22	**0.143**	0.140

The financial statements on pages 2 to 33 were approved by the Board of Directors on .... 2013 and were signed on their behalf by:

Director

Director

Report of the Auditors - page 1

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	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 2012	**25,001,202**	**528,403**	**2,403,227**	**1,635,867**	**294,514**	**5,041,247**	**34,904,460**
Comprehensive income:							
Profit for the year	-	-	-	-	-	**3,397,269**	**3,397,269**
Total comprehensive income for the year	-	-	-	-	-	**3,397,269**	**3,397,269**
Transactions with owners:							
Transfer to legal reserve	-	-	**339,727**	-	-	**(339,727)**	-
Transfer to special reserve	-	-	-	**322,949**	-	**(322,949)**	-
Cash dividend	-	-	-	-	-	**(2,500,120)**	**(2,500,120)**
Total transactions with owners	-	-	**339,727**	**322,949**	-	**(3,162,796)**	**(2,500,120)**
At 31 December 2012	**25,001,202**	**528,403**	**2,742,954**	**1,958,816**	**294,514**	**5,275,720**	**35,801,609**

The accounting policies on pages 8 to 33 form an integral part of these financial statements.

Report of the Auditors – page 1

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital	Share premium reserve	Legal reserve	Special reserve	Foreign currency reserve	Cumulative changes in fair value of derivatives	Retained earnings	Total
	RO	RO	RO	RO	RO	RO	RO	RO
Notes	13	14	15(a)	15(b)	15(c)			
At 1 January 2011	25,001,202	528,403	2,118,432	1,635,867	294,514	(31,480)	2,478,098	32,025,036
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	2,847,944	2,847,944
Other comprehensive income:								
Net movement in fair value of cash flow hedges	-	-	-	-	-	31,480	-	31,480
Total comprehensive income for the year	-	-	-	-	-	31,480	2,847,944	2,879,424
Transactions with owners:								
Transfer to legal reserve	-	-	284,795	-	-	-	(284,795)	-
Total transactions with owners	-	-	284,795	-	-	-	(284,795)	-
At 31 December 2011	25,001,202	528,403	2,403,227	1,635,867	294,514	-	5,041,247	34,904,460

The accounting policies on pages 8 to 33 form an integral part of these financial statements.

Report of the Auditors – page 1

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	**31 December 2012 RO**	31 December 2011 RO
Profit before taxation		**3,861,211**	3,232,209
Adjustments for:			
Depreciation	7	**130,876**	128,448
Loss/(gain) on property and equipment written off/sold during the year		**109,547**	(3,134)
Provision for impairment on installments finance debtors - net	8	**207,840**	934,383
Interest expense		**2,238,638**	1,997,685
End of service benefits charge for the year	20	**53,496**	48,793
Operating profit before changes in operating assets and liabilities		**6,601,608**	6,338,384
Installment finance debtors:			
- Disbursements during the year		**(59,264,820)**	(50,825,663)
- Principal repayments received during the year		**40,451,337**	42,879,666
Other receivables and prepayments		**(8,154)**	12,751
Creditors and other payables		**(113,135)**	3,314,148
End of service benefits paid	20	**(3,596)**	(5,591)
Interest paid		**(2,160,540)**	(2,032,356)
Income taxes paid	6	**(60,061)**	-
Net cash used in operating activities		**(14,557,361)**	(318,661)
Investing activities			
Proceeds on sale of property and equipment		**551,450**	5,509
Purchase of investment securities		**-**	(22,500)
Purchase of property and equipment	7	**(46,262)**	(72,730)
Additional deposit with CBO		**(40,000)**	-
Net cash generated from / (used in) investing activities		**465,188**	(89,721)
Financing activities			
Long-term loans received		**26,965,876**	9,500,000
Long-term loans repaid		**(8,825,049)**	(11,339,353)
Net change in short-term loans		**500,000**	1,500,000
Corporate deposits		**(2,625,000)**	1,500,000
Bank overdrafts		**(776,368)**	238,850
Dividends paid		**(2,500,120)**	-
Net cash generated from financing activities		**12,739,339**	1,399,497
Net change in cash and cash equivalents		**(1,352,834)**	991,115
Cash and cash equivalents at beginning of the year		**2,854,288**	1,863,173
Cash and cash equivalents at end of the year	12	**1,501,454**	2,854,288

The accounting policies on pages 8 to 33 form an integral part of these financial statements.

Report of the Auditors – page 1

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 and Bahrain stock exchanges.

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.

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 2012 and relevant for the Company's operations:

For the year ended 31 December 2012, 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 2012.

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 year.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the company's accounting periods beginning on or after 1 January 2013 or later periods, but the company has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 31 December 2012:

IFRS 9, 'Financial instruments part 1: Classification and measurement', (effective on or after 1 January 2015);
IFRS 13, 'Fair value measurement' (effective on or after 1 January 2013).

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 income statement 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 income statement.

2.4 Recognition of interest income and expenses

Interest income and expense are recognised in the income statement 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

Income tax on the results for the year comprises current and deferred tax.

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.

2.6 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

2 Significant accounting policies (continued)

2.6 Property and equipment (continued)

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 income statement.

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 income statement for the year.

(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.

(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 Significant accounting policies (continued)

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

(a) 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 income statement.

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 income statement. 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.

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.

2 Significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

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 income statement.

Renegotiated installement 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.

(b) Assets classified as available-for-sale

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 income statement - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

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.

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 income statement. Amounts accumulated in equity are routed through income statement in the period when the hedged items affects income statement. The gain or loss relating to the effective portion of interest rate swaps is recognised in income statement 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 income statement.

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 Significant accounting policies (continued)

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 income statement 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.

2.16 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 Significant accounting policies (continued)

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.

2.22 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.

4 Other income

	31 December 2012 RO	31 December 2011 RO
Foreclosure charges	**304,244**	268,545
Penal charges	**153,058**	145,895
Bad debts recovered	**114,201**	116,002
Documentation fees	**107,268**	82,593
Insurance commission income	**98,502**	73,990
Dividend income	**-**	27,664
Letter of credit and guarantee commission	**-**	5,931
Profit on sale of assets	**6,282**	5,178
Others	**53,444**	382,866
	836,999	1,108,664

5 Other expenses

	31 December 2012 RO	31 December 2011 RO
Staff costs (note 5.1)	**2,090,259**	1,762,171
Communication and traveling	**162,802**	165,281
Repairs and maintenance	**119,905**	119,794
Statutory and legal expenses	**46,569**	67,776
Directors' sitting fees (note 24)	**53,000**	53,500
Fees and charges	**58,137**	47,981
Insurance	**88,643**	46,270
Rent	**44,293**	36,847
Bank charges	**59,371**	31,391
Advertising and business promotion expenses	**22,703**	24,962
Water and electricity charges	**20,216**	18,503
Loss on sale of assets	**115,829**	2,044
Proposed Directors' remuneration (note 24)	**37,374**	12,154
Others	**35,994**	38,129
	2,955,095	2,426,803

5.1 Staff costs

	31 December 2012 RO	31 December 2011 RO
Wages and salaries	**1,507,841**	1,339,897
End of service benefits (note 20)	**53,496**	48,793
Contributions towards the Public Authority for Social Insurance Scheme	**40,478**	34,540
Other benefits (note 5.2)	**488,444**	338,941
	2,090,259	1,762,171

5 Other expenses (continued)

5.2 Other benefits

	31 December 2012 RO	31 December 2011 RO
Management incentives	**147,440**	99,817
Bonus to staff	**157,500**	92,709
Others	**183,504**	146,415
	488,444	338,941

6 Taxation

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

	31 December 2012 RO	31 December 2011 RO
Income statement:		
Current tax:		
Prior year	**60,483**	94,306
	60,483	94,306
Deferred tax:		
Current year	**-**	384,265
Prior year	**403,459**	(94,306)
	403,459	289,959
	463,942	384,265

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

	31 December 2012 RO	31 December 2011 RO
Current liability:		
Current year	**-**	94,306
Prior years	**450,903**	356,175
	450,903	450,481
Deferred tax asset:		
At 1 January	**930,193**	1,220,152
Movement during the year	**(403,459)**	(289,959)
At 31 December	**526,734**	930,193
The deferred tax asset comprises of the following temporary differences:		
Loan loss provisions	**-**	410,127
Tax losses	**508,306**	517,368
Depreciation of property and equipment	**18,428**	2,698
	526,734	930,193

6 Taxation (continued)

(c) The reconciliation of the tax on accounting profit at the applicable rate of 12% (2011 - 12%) after the basic exemption of RO 30,000 and the taxation charge in the financial statements is as follows:

	31 December 2012 RO	31 December 2011 RO
Profit before taxation	3,861,211	3,232,209
Taxation at the applicable tax rate	459,746	384,265
Add / (less) tax effect of:		
Reversal / (charge) of prior year deferred tax asset	(403,459)	(94,306)
Charge of prior year tax provision	407,655	94,306
Taxation expense	463,942	384,265

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

	31 December 2012 RO	31 December 2011 RO
At 1 January	450,481	356,175
Charge for the year	60,483	94,306
Paid during the year	(60,061)	-
At 31 December	450,903	450,481

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) All taxation assessments up to 2007 are agreed with the Oman taxation authorities. A tax demand of RO 60,061 relating to the year 2006 was paid in the current year.

7 Property and equipment

	Land RO	Buildings RO	Motor vehicles RO	Furniture and office equipment RO	Total RO
Cost					
1 January 2012	2,627,495	769,816	66,811	1,032,737	4,496,859
Additions / transfers	1,689	-	3	44,570	46,262
Disposals/written off	(659,969)	-	(10,169)	(87,529)	(757,667)
31 December 2012	1,969,215	769,816	56,645	989,778	3,785,454
Depreciation					
1 January 2012	-	175,679	46,681	815,913	1,038,273
Charge for the year	-	38,491	9,900	82,485	130,876
Disposals/written off	-	-	(10,167)	(86,503)	(96,670)
31 December 2012	-	214,170	46,414	811,895	1,072,479
Net book value					
31 December 2012	1,969,215	555,646	10,231	177,883	2,712,975

7 Property and equipment (continued)

	Land RO	Buildings RO	Motor vehicles RO	Furniture and office equipment RO	Total RO
Cost					
1 January 2011	2,627,495	765,666	51,561	1,031,180	4,475,902
Additions	-	4,150	30,000	38,580	72,730
Disposals/written off	-	-	(14,750)	(37,023)	(51,773)
31 December 2011	2,627,495	769,816	66,811	1,032,737	4,496,859
Depreciation					
1 January 2011	-	137,197	49,737	772,289	959,223
Charge for the year	-	38,482	11,693	78,273	128,448
Disposals/written off	-	-	(14,749)	(34,649)	(49,398)
31 December 2011	-	175,679	46,681	815,913	1,038,273
Net book value					
31 December 2011	2,627,495	594,137	20,130	216,824	3,458,586

As of 31 December 2012, the Company is yet to pay RO 220,000 (2011 - RO 220,000) pertaining to the year 2008 towards final payment of land purchased. The amount is included in 'Creditors and other payables' (note 19).

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

	31 December 2012 RO	31 December 2011 RO
Gross installment finance debtors	**124,223,911**	104,565,722
Unearned finance income	**(16,975,085)**	(13,060,042)
Net installment finance debtors	**107,248,826**	91,505,680
Debt factoring activity debtors	**913,139**	747,824
	108,161,965	92,253,504
Impairment provision	**(8,279,630)**	(10,275,199)
Unrecognised contractual income	**(1,941,550)**	(2,643,163)
	97,940,785	79,335,142

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 2012	**Upto 1 year RO**	**>1 year to 5 years RO**	**Total RO**
Gross installment finance debtors	**51,881,050**	**73,256,000**	**125,137,050**
Installment finance and debt factoring activities debtors net of unearned interest	**44,296,355**	**63,865,610**	**108,161,965**
At 31 December 2011			
Gross installment finance debtors	51,492,721	53,820,825	105,313,546
Installment finance and debt factoring activities debtors net of unearned interest	45,433,312	46,820,192	92,253,504

(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:

2012	**Provision' Principal RO**	**Interest RO**	**Total RO**
At 1 January	**10,275,199**	**2,643,163**	**12,918,362**
Charged during the year	**1,644,589**	**418,179**	**2,062,768**
Written back / released during the year	**(1,436,749)**	**(416,361)**	**(1,853,110)**
Written off during the year	**(2,203,409)**	**(703,431)**	**(2,906,840)**
At 31 December	**8,279,630**	**1,941,550**	**10,221,180**

The movement in the provision for impairment of finance debtors and reserved interest for 2011 was as follows:

2011	Provision Principal RO	Interest RO	Total RO
At 1 January	9,803,052	2,631,367	12,434,419
Charged during the year	3,031,879	847,432	3,879,311
Written back / released during the year	(2,097,496)	(542,729)	(2,640,225)
Written off during the year	(462,236)	(292,907)	(755,143)
At 31 December	10,275,199	2,643,163	12,918,362

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 2012, the total balance of finance debtors on which interest is not being accrued or has not been recognised amounted to RO 15.80 million (2011 - RO 20.54 million).

9 Other receivables and prepaid expenses

	31 December 2012 RO	31 December 2011 RO
Advances	25,960	45,779
Prepaid expenses	66,474	35,982
Other debtors	16,671	19,190
	109,105	100,951

10 Investment securities

	31 December 2012 RO	31 December 2011 RO
Al-Soor Financing (Kuwait)	554,149	554,149
National Bureau of Commercial Information	53,355	53,355
	607,504	607,504

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 1.5% (2011 - 2%) per annum. In accordance with the circular number FM 29 issued by Central Bank of Oman on June 15, 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

	31 December 2012 RO	31 December 2011 RO
Bank and cash balances	1,174,589	1,156,724
Call deposits	326,865	1,697,564
	1,501,454	2,854,288

Call deposits are placed with a commercial bank in the Sultanate of Oman with annual interest rate of 0.25% (2011 - 0.25%) per annum.

13 Share capital

Share capital comprises 250,012,020 (2011 - 250,012,020) fully paid shares of RO 0.100 each. The Company's authorised share capital is RO 50,000,000 (2011 - RO 50,000,000).

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

	Number of shares	
	31 December 2012	31 December 2011
Oman Hotels and Tourism Company SAOG	**51,102,387**	51,102,387
The First National LLC	**29,366,044**	27,168,136

	Percentage of holding	
	31 December 2012	31 December 2011
Oman Hotels and Tourism Company SAOG	**20.44**	20.44
The First National LLC	**11.75**	10.87

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 appropriations of 10% of the profit for the year are 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 2012, the Company transferred RO 322,949 (2011 – Nil) 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 __ % for the year 2012 (2011-10%) subject to approval by Central Bank of Oman and the Annual General Meeting of the Company to be held in March 2013.

During 2012, the cash dividend of 10% for the year 2011, amounting to RO 2,500,120 proposed by the Board of Directors was paid after approval by Central Bank of Oman and the Annual General Meeting of the Company held in March 2012. Further, an amount of RO 31,709 in respect of unclaimed dividends was transferred during the year to Investors Trust Fund with MCDC.

17 Borrowings

	31 December 2012 RO	31 December 2011 RO
Bank overdrafts	**90**	776,458
Current portion of long-term loans - RO	**11,945,204**	8,042,380
Short-term loans – RO	**12,000,000**	11,500,000
Long-term loans - US$	**1,924,500**	-
Long-term loans – RO	**21,813,478**	9,499,975
	47,683,272	29,818,813

(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 given 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

	31 December 2012 RO	31 December 2011 RO
Trade creditors	**6,017,884**	6,284,483
Interest payable	**305,563**	227,465
Accrued expenses	**207,177**	165,876
End of service benefits (note 20)	**260,896**	210,996
Advances received from customers	**96,005**	102,480
Others	**665,248**	546,610
	7,552,773	7,537,910

20 End of service benefits

	31 December 2012 RO	31 December 2011 RO
At 1 January	**210,996**	167,794
Charge for the year	**53,496**	48,793
Payments made during the year	**(3,596)**	(5,591)
At 31 December	**260,896**	210,996

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.

	31 December 2012	31 December 2011
Profit for the year (RO)	**3,397,269**	2,847,944
Weighted average number of shares	**250,012,020**	250,012,020
Basic earnings per share for the year (RO)	**0.014**	0.011

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:

	31 December 2012	31 December 2011
Net asset value (RO)	**35,801,609**	34,904,460
Number of ordinary shares outstanding	**250,012,020**	250,012,020
Net asset per share (RO)	**0.143**	0.140

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, 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 2012 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	**5,528,470**	**2,976,870**	**51,321**	**-**	**8,556,661**
Interest expense	**-**	**-**	**-**	**(2,238,638)**	**(2,238,638)**
Net installment finance income	**5,528,470**	**2,976,870**	**51,321**	**(2,238,638)**	**6,318,023**
Other income	**-**	**-**	**100,569**	**736,430**	**836,999**
Segmental expenses					
Other expenses	**-**	**-**	**-**	**(2,955,095)**	**(2,955,095)**
Depreciation	**-**	**-**	**-**	**(130,876)**	**(130,876)**
Profit before tax and provision for impairment	**5,528,470**	**2,976,870**	**151,890**	**(4,588,179)**	**4,069,051**
Provision for impairment	**(135,096)**	**(72,744)**	**-**	**-**	**(207,840)**
Segmental profit for the year before tax	**5,393,374**	**2,904,126**	**151,890**	**(4,588,179)**	**3,861,211**
Income tax expense	**-**	**-**	**-**	**(463,942)**	**(463,942)**
Segmental profit for the year	**5,393,374**	**2,904,126**	**151,890**	**(5,052,121)**	**3,397,269**
Total assets	**63,661,510**	**34,279,275**	**-**	**5,547,772**	**103,488,557**
Total liabilities	**-**	**-**	**-**	**67,686,948**	**67,686,948**

The segment information provided to the Management committee for the reportable segments for the year ended 31 December 2011 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	5,076,146	2,500,191	34,527	-	7,610,864
Interest expense	-	-	-	(1,997,685)	(1,997,685)
Net installment finance income	5,076,146	2,500,191	34,527	(1,997,685)	5,613,179
Other income	-	-	77,292	1,031,372	1,108,664
Segmental expenses					
Other expenses	-	-	-	(2,426,803)	(2,426,803)
Depreciation	-	-	-	(128,448)	(128,448)
Profit before tax and provision for impairment	5,076,146	2,500,191	111,819	(3,521,564)	4,166,592
Provision for impairment	(626,037)	(308,346)	-	-	(934,383)
Segmental profit for the year before tax	4,450,109	2,191,845	111,819	(3,521,564)	3,232,209
Income tax expense	-	-	-	(384,265)	(384,265)
Segmental profit for the year	4,450,109	2,191,845	111,819	(3,905,829)	2,847,944
Total assets	53,154,545	26,180,597	-	8,001,522	87,336,664
Total liabilities	-	-	-	52,432,204	52,432,204

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.

Transactions included in statement of income are as follows:

	31 December 2012 RO	31 December 2011 RO
Directors' sitting fees (note 5)	**53,000**	53,500
Proposed Directors' remuneration (note 5)	**37,374**	12,154
Installment finance income:		
Other related parties	**11,197**	14,601

Transactions relating to installment finance debtors during the year are as follows:

	31 December 2012 RO	31 December 2011 RO
Disbursements:		
Other related parties	**54,495**	70,357
Collections:		
Other related parties	**131,488**	109,173

Amounts due from related parties:

	31 December 2012 RO	31 December 2011 RO
Installment finance debtors due from:		
Other related parties	**67,442**	136,857

No provision is required in respect of loans given to the related parties during the year 2011 and 2012.

Compensation of the key management personnel is as follows:

	31 December 2012 RO	31 December 2011 RO
Salaries and allowances	**377,204**	295,999
End of service benefits	**21,066**	17,233
	398,270	313,232

Salaries and allowance for 2012 include management incentives of RO 147,440 (2011- RO 99,817).

25 Contingent liabilities

At 31 December 2012, there were contingent liabilities of RO 371,040 (2011 - RO 916,982) 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

The fair values of the Company's financial instruments are not materially different from the carrying values.

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 Audit 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.

(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.

27 Financial risk management (continued)

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 31 December 2012 RO	Gross maximum exposure 31 December 2011 RO
Installment finance debtors	**108,161,925**	92,253,504
Other receivables	**109,105**	100,951
Bank balances and deposits (including deposit with CBO)	**1,495,334**	2,805,638
Total credit risk exposure	**109,766,364**	95,160,093

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 2012. An industry sector analysis of the Company's installment finance debtors (net) before taking into account collateral held is as follows:

	31 December 2012 RO	31 December 2011 RO
Personal/car loans	**39,448,781**	26,821,252
Business loan - Services	**16,457,366**	12,850,971
- Trading	**3,111,607**	2,468,291
- Manufacturing	**4,972,961**	3,610,276
- Construction contracts	**17,357,794**	14,848,312
- Construction equipments	**12,256,379**	11,968,731
- Other	**4,335,897**	6,767,309
	97,940,785	79,335,142

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:

	31 December 2012	31 December 2011
1 to 89 days	**9,580,835**	10,067,637

27 Financial risk management (continued)

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

	31 December 2012 RO	31 December 2011 RO
0 to 89 days	**60,294**	768,595
90 to 364 days	**1,931,470**	3,394,862
365 days and above	**13,812,498**	16,378,858
Total	**15,804,262**	20,542,315

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 2012 was RO 7.58 million (2011 - RO 7.77 million). Out of these finance debtors amounting to RO 3.56 million (2011 - RO 3.87 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:

(a) Credit risk (continued)

	31 December 2012 RO	31 December 2011 RO
A-1	**318,730**	861,101
A-3	**540,345**	1,878,487
Unrated	**546,259**	16,050
	1,405,334	2,755,638

(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.

27 Financial risk management (continued)

(b) Market risk (continued)

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 120,000 (2011 - RO 122,765). The Company's exposure to interest rate risk is analysed in the following tables.

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 2012:

27 Financial risk management (continued)

(b) Market risk (continued)

Interest rate risk

	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		-	-	-	-	-	607,504	607,504
Deposit with Central Bank of Oman	1.50	-	-	-	-	-	90,000	90,000
Installment finance debtors	9.91	15,711,287	15,238,828	24,642,439	19,501,588	22,846,643	-	97,940,785
Other receivables		-	-	-	-	-	42,631	42,631
Cash and cash equivalents	0.25	326,865	-	-	-	-	1,174,589	1,501,454
Property and equipment and other assets		-	-	-	-	-	3,306,183	3,306,183
Total assets		16,038,152	15,238,828	24,642,439	19,501,588	22,846,643	5,220,907	103,488,557
Equity and Liabilities								
Borrowings*		17,421,482	6,523,812	16,043,537	6,138,889	1,555,552	-	47,683,272
Corporate deposits*		3,500,000	2,000,000	6,500,000	-	-	-	12,000,000
Creditors and other payables		-	-	-	-	-	7,552,773	7,552,773
Equity and taxation		-	-	-	-	-	36,252,512	36,252,512
Total equity and liabilities		20,921,482	8,523,812	22,543,537	6,138,889	1,552,552	43,805,285	103,488,557
Interest rate sensitivity gap		(4,883,330)	6,715,016	2,098,902	13,362,699	21,291,091	(38,584,378)	
Cumulative gap		(4,883,330)	1,831,686	3,930,588	17,293,287	38,584,378		

*Borrowings and corporate deposits are at market rates.

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 2011:

	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		-	-	-	-	-	607,504	607,504
Deposit with Central Bank of Oman	2.00	-	-	-	-	-	50,000	50,000
Installment finance debtors	10.22	15,590,139	13,547,775	18,164,581	13,068,953	18,963,694	-	79,335,142
Other receivables		-	-	-	-	-	64,969	64,969
Cash and cash equivalents	0.25	1,697,564	-	-	-	-	1,156,724	2,854,288
Property and equipment and other assets		-	-	-	-	-	4,424,761	4,424,761
Total assets		17,287,703	13,547,775	18,164,581	13,068,953	18,963,694	6,303,958	87,336,664
Equity and Liabilities								
Borrowings*		16,718,096	3,600,742	5,416,654	3,499,988	583,333	-	29,818,813
Corporate deposits*		500,000	10,125,000	4,000,000	-	-	-	14,625,000
Creditors and other payables		-	-	-	-	-	7,537,910	7,537,910
Equity and taxation		-	-	-	-	-	35,354,941	35,354,941
Total equity and liabilities		17,218,096	13,725,742	9,416,654	3,499,988	583,333	42,892,851	87,336,664
Interest rate sensitivity gap		69,607	(177,967)	8,747,927	9,568,965	18,380,361	(36,588,893)	
Cumulative gap		69,607	(108,360)	8,639,567	18,208,532	36,588,893		

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 2012 were RO 18.93 million (2011 - RO 14.80 million).

27 Financial risk management (continued)

(c) Liquidity risk (continued)

31 December 2012	0-6 months RO	6 to 12 months RO	1 to 2 years RO	2 to 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Assets							
Investment securities	-	-	-	-	-	607,504	607,504
Deposit with Central Bank of Oman	-	-	-	-	-	90,000	90,000
Installment finance debtors	15,711,287	15,238,828	24,642,439	19,501,588	22,846,643	-	97,940,785
Other receivables	42,631	-	-	-	-	-	42,631
Cash and cash equivalents	1,501,454	-	-	-	-	-	1,501,454
Property and equipment and other assets	-	-	-	-	-	3,306,183	3,306,183
Total assets	**17,255,372**	**15,238,828**	**24,642,439**	**19,501,588**	**22,846,643**	**4,003,687**	**103,488,557**
Equity and Liabilities							
Borrowings	17,421,482	6,523,812	16,043,537	6,138,889	1,555,552	-	47,683,272
Corporate deposits	3,500,000	2,000,000	6,500,000	-	-	-	12,000,000
Creditors and other payables	6,896,919	394,959	-	-	-	260,895	7,552,773
Equity and taxation	-	-	-	-	-	36,252,512	36,252,512
Total equity and liabilities	**27,818,401**	**8,918,771**	**22,543,537**	**6,138,889**	**1,555,552**	**36,513,407**	**103,488,557**
Gap in maturity (excluding off balance sheet)	**(10,563,029)**	**6,320,057**	**2,098,902**	**13,362,699**	**21,291,091**	**(32,509,720)**	
Cumulative gap in maturity	**(10,563,029)**	**(4,242,972)**	**(2,144,070)**	**11,218,629**	**32,509,720**	**-**	
Assets off balance sheet							
Unearned finance income	3,999,645	3,585,049	5,111,651	2,814,407	1,464,333	-	16,975,085
Total assets (including off balance sheet)	**21,255,017**	**18,823,877**	**29,754,090**	**22,315,995**	**24,310,976**	**4,003,687**	**120,463,642**
Liabilities off balance sheet							
Interest payable on loans	1,027,223	811,654	785,154	209,201	15,205	-	2,848,437
Contingent liabilities	82,000	-	-	-	-	289,040	371,040
Total equity and liabilities (including off balance sheet)	**28,927,624**	**9,730,425**	**23,328,691**	**6,438,090**	**1,570,757**	**36,802,447**	**106,708,034**
Gap in maturity	**(7,672,607)**	**9,093,452**	**6,425,399**	**15,967,905**	**22,740,219**	**(32,798,760)**	**13,755,608**
Cumulative gap in maturity	**(7,672,607)**	**1,420,845**	**7,846,244**	**23,814,149**	**46,554,368**	**13,755,608**	

27 Financial risk management (continued)

(c) Liquidity risk (continued)

31 December 2011	0-6 months RO	6 to 12 months RO	1 to 2 years RO	2 to 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Assets							
Investment securities	-	-	-	-	-	607,504	607,504
Deposit with Central Bank of Oman	-	-	-	-	-	50,000	50,000
Installment finance debtors	15,590,139	13,547,775	18,164,581	13,068,953	18,963,694	-	79,335,142
Other receivables	64,969	-	-	-	-	-	64,969
Cash and cash equivalents	2,854,288	-	-	-	-	-	2,854,288
Property and equipment and other assets	-	-	-	-	-	4,424,761	4,424,761
Total assets	18,509,396	13,547,775	18,164,581	13,068,953	18,963,694	5,082,265	87,336,664
Equity and Liabilities							
Borrowings	16,718,096	3,600,742	5,416,654	3,499,988	583,333	-	29,818,813
Corporate deposits	500,000	10,125,000	4,000,000	-	-	-	14,625,000
Creditors and other payables	7,040,562	286,353	-	-	-	210,995	7,537,910
Equity and taxation	-	-	-	-	-	35,354,941	35,354,941
Total equity and liabilities	24,258,658	14,012,095	9,416,654	3,499,988	583,333	35,565,936	87,336,664
Gap in maturity (excluding off balance sheet)	(5,749,262)	(464,320)	8,747,927	9,568,965	18,380,361	(30,483,671)	
Cumulative gap in maturity	(5,749,262)	(6,213,582)	2,534,345	12,103,310	30,483,671		
Assets off balance sheet							
Unearned finance income	3,279,734	2,779,676	3,789,931	2,068,430	1,142,271	-	13,060,042
Total assets (including off balance sheet)	21,789,130	16,327,451	21,954,512	15,137,383	20,105,965	5,082,265	100,396,706
Liabilities off balance sheet							
Interest payable on loans	825,992	633,385	424,218	112,121	2,055	-	1,997,771
Contingent liabilities	138,000	143,457	69,000	-	-	566,525	916,982
Total equity and liabilities (including off balance sheet)	25,222,650	14,788,937	9,909,872	3,612,109	585,388	36,132,461	90,251,417
Gap in maturity	(3,433,520)	1,538,514	12,044,640	11,525,274	19,520,577	(31,050,196)	10,145,289
Cumulative gap in maturity	(3,433,520)	(1,895,006)	10,149,634	21,674,908	41,195,485	10,145,289	

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 35.80 million as at 31 December 2012 (2011 - RO 34.90 million). The Company is already in compliance with the Central Bank of Oman's minimum capital requirement of RO 21 million.

28 Comparative figures

Certain corresponding figures for 2011 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.

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