ANNUAL REPORT 2020

United Finance Company SAOG

His Majesty Sultan Haitham bin Tarik

His Majesty Sultan Qaboos bin Said

"May Allah have mercy upon him"

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

Mohamed Abdulla Al Khonji
Chairman

Hassan Ihsan Naseeb Al Nasib
Deputy Chairman

Hussam Hisham Omar Bostami
Director

Waseem Salah Qaraeen
Director

Khalid Abdullah Salim Al Eisri
Director

Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani
Director

Fariborz Vessali
Director

Audit & Risk Management Committee

Waseem Salah Qaraeen
Chairman

Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani
Member

Khalid Abdullah Salim Al Eisri
Member

Nomination, Remuneration, and Executive Committee

Mohamed Abdulla Al Khonji
Chairman

Hassan Ihsan Naseeb Al Nasib
Member

Hussam Hisham Omar Bostami
Member

Fariborz Vessali
Member

HEAD OFFICE

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

BRANCHES

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

BANKERS

- Bank Muscat
- National Bank of Oman
- Bank Dhofar
- Bank Sohar
- Bank of Baroda
- Qatar National Bank
- Ahli Bank
- Oman Arab Bank

STATUTORY AUDITORS

Deloitte & Touche

BOARD OF DIRECTORS' REPORT

Mohamed Abdulla Al Khonji
Chairman

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present to you the audited financial results of your company for the year ended 31st December 2020.

Overview

"Every adversity, every failure, every heartache, carries with it the seed of a similar or greater benefit" – Napoleon Hill

2020 started off on a promising note with the government unveiling the State Budget with sizable outlay for developmental projects to foster economic activity. The government adopted a balanced approach of restraining spending in line with the projected revenue streams to curtail the budget deficit. However, the onset of Covid-19 pandemic forced the governments across the world to implement strict precautionary measures which included lockdowns and movement restrictions to curtail the spread of coronavirus. These developments hampered normal economic activity as business establishments had to shut down operations and triggered a slump in demand for oil, resulting in a fall in oil prices by the end of Q1 2020. The drop in oil revenue prompted the government to curtail spending and roll back budgeted outlay on developments projects resulting in subdued market conditions which impacted normal economic activity.

The Board of your company met and decided that we should use the year of the pandemic to reset our focus and priorities and build a digitally-led, revived and rejuvenated company going forward. A three-year strategic plan was drawn up and 2020 was the first step in our new path to become a company that is relevant to the youth of Oman.

The company was faced with severe lockdown of businesses, staff and customers were affected by the pandemic and the second quarter of the year was essentially written off. However, with the support of the Central Bank and the guidance of the Supreme Committee, we have come out a better and stronger company and are ready to face the coming years with belief and confidence.

The year under review

Taking into consideration the volatile market conditions and uncertainties that prevailed through 2020, Company adopted a restrained approach in booking fresh business in the first half of the year. As a result, the loan portfolio of the company as at 31 December 2020 registered as decline and stood at RO.85.32 Million as against RO.98.46 Million as at 31st December 2019. The company recorded a net profit of RO.776,041 for the year 2020 as against RO.672,704 for the previous year - an increase of 15%. Company took rigorous efforts on the recovery front which helped in restraining NPAs at RO.27.31 Million as at 31st December 2020 as against RO.26.76 Million as at 31st December 2019.

The company holds cumulative provisions of RO 17.84 Million as at December 2020, including reserved interest and a Special Reserve of RO 2.37 Million to guard against delinquencies. The Management is pursuing stringent recovery measures to control and bring down the level of impaired loans in the coming year.

Merger

The company put in a lot of effort in the year to assess the possibility of a merger with another finance company. One of the Big 4 audit firms was appointed to do the initial valuation of both the companies. The final proposed valuation, after negotiation, could not be agreed by either companies and it was decided to drop the proposed merger. I would like to thank the Board members of both the companies for the time and effort that was put in to this exercise.

Human Resources

We have worked hard to reduce headcount where required without allowing the Omanisation requirement of 80% to be breached, and this has resulted in our staff costs going down substantially. This was one of the key strategic decisions taken by the Board and we are now a leaner and more efficient organization. We also encouraged the management to train Omanis for senior management positions and four Omanis were identified and underwent training at the College of Banking and Financial Studies. Our vision is to have 100% Omanis in our branches very soon.

"Accepted that we are Human Resources, but we are Human first and Resources later" - Rutvik Oza

In the middle of the pandemic crisis we had asked our staff to voluntarily take salary reductions and I am pleased to say that 88% of our staff chose to forego part of their salary to help the company reduce costs at a difficult time. I would like to thank them all for this gesture.

Change in Directors

One of the Directors, Mr. Ranga Gorur had resigned and as a consequence Mr. Khalid Abdullah Salim Al Eisri has been elected to the Board. Mr. Khalid Al Eisri is a Senior Manager at the Oman Investment Authority (OIA). He joined OIA in 2009 and has 15 years of working experience in the investment sector. He is a Chartered Financial Analyst (CFA) and has a Bachelor degree from the College of Commerce at the Sultan Qaboos University. We welcome him to our Board.

Corporate Governance

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

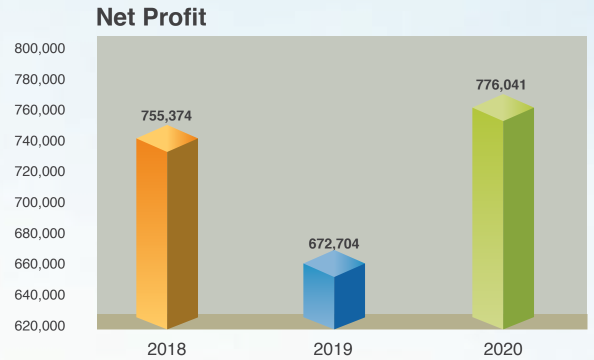
Corporate Social Responsibility

"Creating a strong business and building a better world are not conflicting goals- they are both essential ingredients for long term success" – Bill Ford

As part of its corporate social responsibility initiatives, UFC continues to participate in social programs by conducting regular blood donation camps and offers employment to the physically challenged. The company extends funding to SME's and local community contractors in the interior regions which indirectly aids in providing employment opportunities and a source of livelihood to the locals in the vicinity of the projects funded.

Looking Ahead

"You've got to think about the Big Things while doing the Small Things, so that all the Small Things are going in the right direction"- Alvin Toffler



The National Program for Fiscal Balance and the State Budget for the year 2021 focus on measures to increase the efficiency of spending through various initiatives. The objective is to ensure sustainable growth over the long term. The budget also focusses on diversifying income sources to reduce dependency on the oil and gas sector. Introduction of VAT, expanding the Excise Tax base and the phased withdrawal of subsidies of water and electricity are some of the initiatives being taken by the government to improve alternate revenue sources to reduce debt. Various austerity measures are also likely to be implemented to curtail non-essential expenditure. The Development Plan aims to promote economic diversification in sector such as logistics, agriculture, fisheries, mining and manufacturing to achieve balanced growth and provide job opportunities to nationals. These initiatives are aimed at driving economic activity and aid in achieving fiscal stability and sustainable growth in the long run.

We at United Finance Company SAOG are committed to aligning our corporate philosophy and strategy for growth with the principles and goals enshrined in the 2040 Vision. We are determined to play our full part in realising all of those objectives. Taking a cue from the 2040 Vision and its precursor, the 2020 Vision, the company is proud to have already embraced many of these pillars, notably in support of youth entrepreneurship, SME development and local community advancement.

With the market environment gradually reviving from the impact of Covid-19 pandemic, UFC would cash in on the market opportunities as they unfold and grow its loan book, albeit with emphasis on asset quality.

The delays experienced by customers in realizing their contractual dues and its impact on the cash flow of borrowers is a major challenge we expect going forward. Over the years we have built an adequate cushion of provisions and are well positioned to safeguard the company's shareholders.

Our total borrowings to debt are below 1x and while we expect liquidity to remain tight, we are receiving good support from our bankers for our growth plans.

2021 is expected to be a year of uncertainties due to the second phase of the pandemic which is spreading across many countries. We expect that oil prices may remain low due to the travel restrictions and lack of mobility which are likely to continue. However, we remain cautiously optimistic that we will be able to execute the goals the company has set for itself, despite all the challenges.

Tribute to Late His Majesty Sultan Qaboos

On the first anniversary of the passing away of our beloved Sultan Qaboos bin Said Al Said, we recall with profoundly grateful hearts his tremendous and longstanding leadership as the Architect of Oman's Blessed Renaissance and in carefully shepherding the nation's development over five decades. During his long reign, the late Sultan laid the foundations for the growth of a strong and prosperous country that today stands justifiably proud among the GCC and other developed countries. A champion of peace and goodwill, he will always be acclaimed internationally for his espousal of cooperation and reconciliation.

Acknowledgement

The Board of Directors and Management express their highest gratitude to His Majesty Sultan Haitham bin Tariq Al Said and respectfully acknowledge his able leadership to nurture and lead the country in the years to come.

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

On behalf of the Board I would like to place on record my appreciation and thank the Management and staff for their individual and collective contribution to achieving operational efficiency and realizing the company's goals.

May God bless all of us.

Mohamed Abdulla Al Khonji
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR 2020

Bikram S. Rishi
Acting Chief Executive Officer

Economic Overview

2020 was witness to a wave of uncertainties with the onset of COVID-19 pandemic across the world. Oman took various precautionary steps to curb the spread of corona virus. The measures included a ban on international travel, implementation of lock downs, restrictions on movements of goods, shut down of manufacturing units and imposing of curfew, among others. Economic activity was hampered and almost came to a grinding halt and impacted businesses across all market segments. The slump in the demand for oil triggered a steep drop in oil prices. Oman had to tide over the twin challenges of combating the spread of COVID-19 pandemic and a steep drop in revenue from oil. As a result, the Government had to take a conservative approach of judiciously prioritizing its developmental plans in line with expected revenue inflows to conserve resources to meet exigencies and curtail the budget deficit. Government had to defer some of its planned developmental activities and prioritize spending on essential need based socio-economic projects.

The Government however went ahead and pursued ongoing projects for completion, albeit at a slower pace. The government laid emphasis on its long term diversification programs and progressed with its phased plan of reducing the Fiscal deficit, while at the same time ensuring that any steps taken are linked to a social safety net so that low income families are taken care of. The Mid-Term Fiscal plan is a bold and far-sighted step which will assist the country to emerge much stronger in the next 3-4 years.

Market liquidity was volatile through 2020 resulting in an increase in interest rates. Banks adopted a restrained approach and were selective in extending loans in view of the uncertain market conditions. Mobilization of funds from time to time by Government and State owned Enterprises from the local money market resulted in the tightening of market liquidity. Business entities experienced inordinate delays in the settlement of dues by counter parties resulting in strained cash flow. Individuals also experienced delays in receiving their salaries putting them under financial stress.

Industry Overview

2020 was a turbulent year for all FLCs. The preemptive measures taken by the government to curb the spread of COVID-19 dampened economic activity. Business potential was restrained as many projects were deferred and there was a slowdown in the implementation of ongoing projects. This resulted in a steep decline in business opportunities and impacted new loan disbursements. with profits declining for all the companies. Due to a dearth of avenues for deployment of commercial assets the demand for equipment and commercial vehicles declined as there was a huge volume of idle assets available for hiring at nominal rates. The sale of private vehicles witnessed a steep drop in Q2 2020 due to shutdown of car showrooms and movement restrictions which were in vogue. However, with the reopening of showrooms in Q3 2020 and relaxing of curbs on movement, private vehicle sales witnessed a gradual revival, though it was much less than volumes sold in the previous year. Banks penetration into SME funding and private vehicle financing also had an impact on the market potential for expansion of credit by FLCs.

The economic downturn in the local, regional and international markets triggered a slump in demand for oil resulting in a steep dip in oil prices. This affected the revenue inflow from oil and gas sectors resulting in tight liquidity. Market liquidity remained volatile all through the year and pushed up the cost of borrowing. The increase in interest cost coupled with drop in quantum of fresh loan booking triggered a decline in net profits of FLCs.

Opportunities & Threats

The Budget for the year 2021 signifies the Government's intent to promote its diversification programs to increase its share of estimated revenue from non-oil segments, privatize some government entities, reform the pension system and reduce certain subsidies, to achieve fiscal stability and sustainable growth. It also aims at addressing the challenges faced by the country as a result of the COVID-19 pandemic. Revenue from taxes for the FY 2021 is estimated to increase through the introduction of VAT and expanding the base of products for levy of Excise tax. Going forward the Government is attempting to increase revenue and curtail public spending to curtail the budget deficit and achieve financial sustainability over the years. Despite the intent to reduce overall expenditure, the Government has allocated a sizable outlay for spending on basic services, such as education, health care, housing and social welfare. In addition to pursuing ongoing projects, we expect the Government to focus on implementation of new projects of social importance. We envisage that these initiatives would drive economic activity and provide potential for expansion of business and employment opportunities to the citizens and residents and contribute to sustained growth.

Revival from the impact of COVID-19 pandemic and stability in oil prices are the main criteria that would drive the government's initiatives to embark and complete the planned infrastructure projects. This would aid in achieving financial stability, stimulate economic activity, ease liquidity and hasten the release of contractual dues.

On the contrary, if the spread of the second wave of the COVID-19 pandemic is not arrested and brought under control by countries around the world, demand for oil could slump again and pull down the oil price below the budgeted level. Such a scenario may prompt the Government to revisit its planned expenditure and slow down / roll back its developmental projects to curb the budget deficit. This would impede economic activity, affect business prospects and further delay payments, and trigger a spurt in delinquencies. Market liquidity would tighten and push up interest rates resulting in narrowing of net interest margins.

The continued penetration of Banks into SME funding and vehicle financing at lower interest rates and extended loan tenures could pose a challenge and affect the business prospects of FLCs, trigger competition and hamper growth plans. Changes in regulations, including the introduction of VAT, could also impact the performance of FLCs.

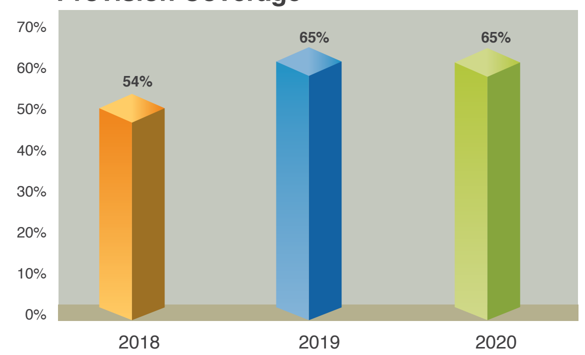
Analysis of Segment & Product-wise performance

UFC focuses on extending finance to the retail and corporate segments with the objective of maintaining a balanced loan portfolio. As at December 2020 its corporate exposure stood at 63% and retail exposure at 37%. Loans extended for assets used by the borrowers for income generation are classified under corporate segment, while assets used for personal purpose are classified under retail segment. The Management evaluates the loan portfolio of the company regularly, based on the repayment track record, income spreads and incidence of delinquencies and suitably amends its lending norms to mitigate risk. The credit criteria of the company are periodically reviewed and revised based on market feedback and risk review reports to safeguard against delinquencies. All loans extended by the company are secured by the assets financed and in specific cases additional security by way of assignment of receivables, collateral assets, mortgage of property, personal guarantees of borrowers and counter parties are obtained to mitigate the risks from unforeseen developments.

Outlook

UFC would adopt a prudent approach to cash in on the business opportunities to grow its loan book with emphasis on improving asset quality by judiciously evaluating loan proposals. Company would pursue

Provision Coverage



its objective of maintaining a balanced loan portfolio by diversifying lending to different market segments and to spread risk by reducing credit concentration. Company would continue its concerted efforts on the collection front to curb fresh delinquencies and bring down the level of impaired loans. The Management will make concerted efforts and take rigorous steps to improve collection efficiency and to restrain and reduce impaired loans. Under the guidance of the eminent Board, the Management and staff of the company will collectively put in their best efforts to improve operational efficiency and the company's performance in the ensuing year.

Human Resources

UFC lays emphasis on recruiting aspiring Omanis and nurturing them to achieve their career goals. UFC imparts periodic training to enable its staff to efficiently handle their assigned tasks. The company regularly reviews the training needs of its staff and conducts training programs to enhance their knowledge and skill sets and groom them to take up higher positions and achieve career growth. The Company has a track record of consistently maintaining the prescribed level of Omanisation.

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 promote 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 the Risk Management Team helps in evaluating the risks the company and the industry are exposed to. The Risk Management Team regularly reviews the economic and market developments and their likely impact on the performance of the company & 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 corporate proposals and retail 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 mitigating the credit risk. Continuous monitoring of the business performance of borrowers through regular interactions, evaluation of financials and information from market sources helps the company proactively assess any signs of weakness or dilution in the creditworthiness of borrowers and take proactive measures to mitigate credit risk.

Interest Rate Risk

Interest rate risk arises on account of mismatches in the re-pricing dates of assets and 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 180 days to over five years at fixed interest rates, albeit with an interest variance clause. However, any re-pricing of the company's liabilities by its lenders due to economic and market driven factors would result in an interest rate risk. The company mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates to the extent possible.

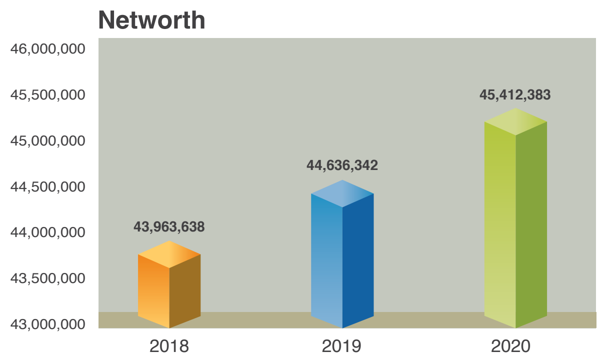
Liquidity Risk

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

Internal control systems & their adequacy

UFC has a competent internal audit team in place manned by experienced professionals. The company has assigned some areas of internal audit to an external audit firm to complement the scope of work of the in-house audit team. In addition to the regular checks carried out, their scope of work also focuses on risk-based audit. The internal audit setup in place is appropriate to handle the level of operations of the company. The department directly reports to the Audit and Risk Management 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 are reviewed and updated by the Heads of Departments and Management at periodic intervals in line with the changing business environment and circulated to the concerned departments, for their reference and compliance, after approval by the Board.

The role of internal audit is further strengthened through the compliance function to ensure conformity with statutory and regulatory requirements. The compliance function is independently headed by the Chief Compliance Officer, who is an experienced and competent professional, and reports to Board. 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, trained and entrusted with the responsibility of ensuring compliance with the prescribed norms. Periodic training in areas of compliance are conducted at HO and through training sessions at branches during visits by the Chief Compliance Officer to inculcate a compliance culture.



Information Technology, Disaster Recovery and Business Continuity Plan

UFC has a team of experienced and competent Information Technology professionals. The company lays emphasis on regularly reviewing and upgrading its IT infrastructure to cater to the needs of the changing business environment. The company uses state-of-the-art banking software, which is in use by many banks and financial institutions in different countries. Company has planned to upgrade its core software solution in 2021-2022. The company maintains its Disaster Recovery (DR) infrastructure at Barka. This setup is tested periodically to ensure preparedness. With the DR infrastructure in place, the company is equipped to resume its business operations with minimum down time, in the event of any disruption. The company has in place an approved Business Continuity Plan as applicable to finance institutions which covers coping with pandemics.

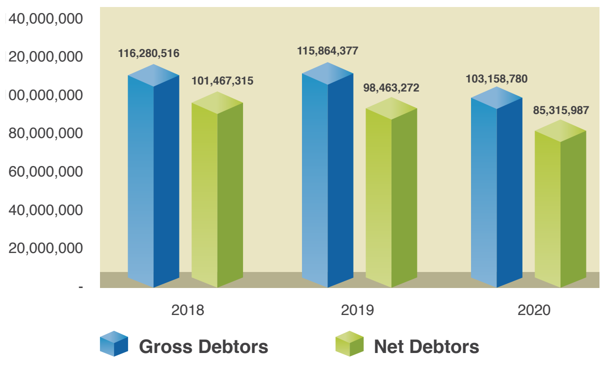
Discussion on financial & operational performance

In 2020 UFC adopted a cautious approach in view of the turbulent market conditions that prevailed consequent to the onset of COVID-19 pandemic. The loan portfolio as at December 2020 was RO 85.32m as against RO 98.46m at the end of the previous year. The company registered a net profit of RO 776k for the year 2020 as against RO 673k in the previous year. The main factors contributing to the increase in net profit was the reduction in staff and operating expenses plus lower provisions due to control on slippages in the Non-performing loan portfolio. Impaired loans as at December 2020 was higher at RO 27.31m as against RO 26.76m as at December 2019. Consistent efforts on the recovery front aided in containing the increase in the level of impaired loans in spite of the strained cash flow of customers as a result of the impact of COVID-19 pandemic and the resultant delays in realizing their contractual dues.

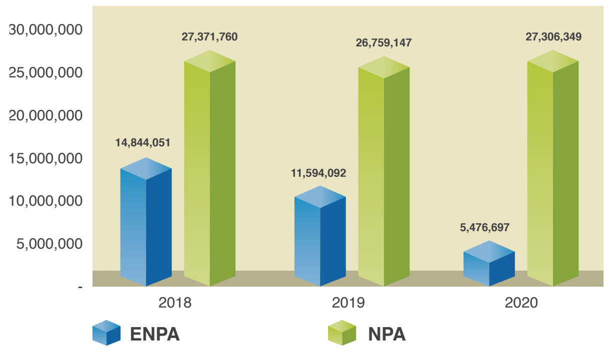
The fund position of company was comfortable during the year. Company mobilized adequate credit limits facilities from banks to meet its business requirements. However, the interest cost on borrowings increased due to the tightening of market liquidity resulting in finer net interest margins.

The company provided RO 1.50m as impairment provision during the year in compliance with IFRS 9 requirements which includes specific provisions in lieu of COVID-19. Company is taking appropriate preemptive steps to improve collections and bring down the level of impaired loans in the ensuing year.

Gross Debtors vs Net Debtors



ENPA vs NPA



Performance at a Glance

			(RO '000)
Particulars	**2018**	**2019**	**2020**
Total Assets	105,154	102,423	89,374
Share Capital	34,914	34,914	34,914
Total Equity	43,964	44,636	45,412
Finance Debtors	101,467	98,463	85,316
Total Borrowings	56,920	52,010	40,675
Gross Income	9,850	9,101	7,978
Net Finance Income	6,530	5,690	4,997
Net Profit	755	673	776

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Minaret Al Qurum Building, Level 6
Al Qurum
P.O. Box 258, Postal Code 112
Muscat
Sultanate of Oman

Tel: +968 22354300
Fax: +968 22354333
www.deloitte.com

TO THE SHAREHOLDERS OF
UNITED FINANCE COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) Circular No. E/4/2015 dated 22 July 2015 with respect to the accompanying corporate governance report of **United Finance Company SAOG** as at and for the year ended 31 December 2020 and its application of corporate governance practices in accordance with CMA code of corporate governance issued under Circular No. 4/2015 dated 22 July 2015 and amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standards on Related Services to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA and are summarized as follows:

1. We obtained the corporate governance report issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2. We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors with the Code, for the year ended 31 December 2020. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

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

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

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

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

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
18 March 2021

C.R. No. 1736256
Deloitte.
0901-01
Deloitte & Touche (M.E.) & Co. LLC

CORPORATE GOVERNANCE REPORT 2020

I. Company's philosophy

United Finance Company SAOG (the Company) has adopted the Corporate Governance framework introduced vide CBO circular no. BM/932 dated 04.02.2002, CMA regulations vide CMA circular no. 11/2002 duly amended by circular No 1/2003 and CMA Administrative Decision No.5/2007 as part of its Disclosure Policy, Code of Corporate Governance vide CMA circular No. E/4/2015, Executive regulation of Capital Market Law. The company always believed in good governance practices and it was with pleasure that the Board and Management noted that the company was in full compliance with CBO/CMA guidelines in this respect. Further separate paragraphs on Corporate Social Responsibility and Information Technology, Disaster Recovery and Business Continuity Plan are being included in the Annual Report.

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

1. Role and responsibilities of the Board:

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

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

2. Role and Responsibilities of the Management:

a. Rendering assistance in policy formulation and periodic review to the Board.
b. Responsibility for implementation: Management is responsible for implementation of banking laws, regulations and circulars issued by Central Bank of Oman and other regulatory authorities within the Sultanate of Oman.
c. Management is also responsible for implementation of Board approved policies by putting in place procedures, internal controls, risks and performance measurement methodologies, management information systems and reports to the Board.
d. Responsibility for transmitting correct and timely signals.
e. Acting professionally and expertise manifest.
f. Nurturing proper and ethical behaviour.
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 & Risk Management Committee of the Board having three 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 & Risk Management Committee of the Board maintaining its independence. There are well-defined policies and procedures for all financial and business transactions of the company. Internal Audit Department checks the financial transactions, business transactions, and regulatory compliances such as CBO and CMA systems and procedural audit and policy compliance.Further, it is ensured that no transaction in the company is completed by a single person and always a minimum of two persons are involved.Similarly, there is sufficient control exercised on computer systems, such as differentiating the development server from live server and access control of data. The company has well documented procedures for its operations to be managed with acceptable controls and the Board of Directors has found these controls to be effective.

II. Board of Directors

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

Executive Directors	NIL
Independent, Non-Executive Directors	1. Mr. Waseem Salah Qaraeen 2. Mr. Khalid Abdullah Salim Al Eisri **
Non-independent, Non-Executive Directors	1. Mr. Mohamed Abdulla Al Khonji (Chairman) 2. HE. Hassan Ihsan Naseeb Al Nasib (Deputy Chairman) 3. Mr. Hussam Hisham Omar Bostami 4. Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani 5. Mr. Fariborz Vessali

*** Mr. Khalid Abdullah Salim Al Eisri was appointed as Director in the place of Mr. Ranga Gorur, who resigned on 31/12/2019, vide the Board Resolution passed in the Board meeting held on 28th January 2020.*

*** Mr. Khalid Abdullah Salim Al Eisri, was elected as a Director on the board on 12th May 2020 in the AGM.*

DIRECTORS' PROFILE

1 **Mr. Mohamed Abdulla Al Khonji**, is a Bachelor in Economics and graduated in 1994 from the University of Northern Colorado, USA. He is a major investor in several companies and real estate in Oman. Besides being the Chairman of the Board and Chairman of the Nomination Remuneration Executive Committee in United Finance Company SAOG, he is a Board Member and Member of Executive Committee of Oman & Emirates Investment Holding Company SAOG, in addition at Dhofar Cattle Feed SAOG he is Board Member and member of the Executive Committee, at Takaful Oman Insurance SAOG he is the Deputy Chairman and a member of the Executive Committee ,at Oman Fiber Optic Company SAOC he is a Board Member and member of Audit Committee, Chairman of the Board and Chairman of Executive Committee in Oman Hotels & Tourism Company SAOC and Director at Salam Air SAOC. Apart from this he is also the Deputy Chairman of the Board & Chairman of Executive Committee at Al Khonji Group & Chairman of Al Khonji Invest LLC. and Chairman & CEO of Al Khonji Real Estate & Development LLC (Aqar).

2. **HE Hassan Ihsan Naseeb Al Nasib** has done a Masters in Military Science. He has over 37 years of experience at the Ministry of Defense. He has contributed to the establishment of many of closed and limited liability companies. Currently, Chairman of the Board in OETI, Global Financial Investment Holding Co. SAOG, and of Al Madina Logistics, and a member of the Board of OHI Group SAOC, member of Nomination Remuneration Executive Committee of United Finance Company SAOG and Board member of Al Shams Packing Company SAOG.

3. **Mr. Hussam Hisham Omar Bostami** holds a Bachelor of Administrative Sciences Degree from the Yarmouk University, Jordan, majoring in Accounting. He also holds a Master Degree in Banking and Financial Studies from the Arab Academy for Banking and Financial Sciences, Jordan. He is also a Certified Compliance Officer from the American Academy of Financial Management. He has worked as Internal Auditor in both Amman Bank for Investment (Jordan) and the Oman Development Bank (Oman) and also as Credit & Investment Officer in the Islamic International Arab Bank (Jordan). He currently holds the position of General Manager – Finance & Administration / Acting CEO with Global Financial Investment Holdings Co. SAOG, Oman. Besides being a board member and a member of the Nomination Remuneration Executive Committee in United Finance Company SAOG, he is also on the board of Construction Material Industries SAOG, Gulf Stone Co. SAOG, Al Madina Logistic Services Co. SAOC and Al Sharqiyah University SAOC.

4. **Mr. Waseem Salah Qaraeen**, holds a Degree in Bachelor of Economics, Administration, Sciences (Accounting) from, Amman – Jordan. He also holds a master's certificate (MBA) from the Bedfordshire University in UK. With over 20 years of experience in the field of investment, and Internal and External Audit. He is serving as Board member in OETI, AL Batinah Development and Investment Holding Co SAOG and in Al Batinah Hotels CO SAOG. He is the Chairman of the Audit and Risk Committee of United Finance Company SAOG and has experience in the local and overseas financial markets. and has. experience in the companies administration as well.

5. **Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani** is an investor, scholar and physician. He did his postgraduate training in the fields of Internal Medicine, Respiratory and Sleep Medicine at the University of Toronto from 2004 till 2010. He also obtained a Master of Public Health degree in 2012. He has accreditations and fellowships from reputed institutions in Canada and USA. He has published scientific articles and been a speaker in various forums. Currently, Dr. Mohammed is serving as a Board member of several companies and is a member of the Audit and Risk Committee of United Finance Company SAOG. He also practices Medicine and conducts scientific research projects. His investment is concentrated in education and health sectors.

6. **Mr. Fariborz Vessali** holds a Bachelor's degree in Mechanical Engineering, a Master's degree in Engineering Science from the University of New South Wales, Sydney and a Master's degree of Business Administration from the University of Technology, Sydney. He is a proven leader with over 26 years of leadership and Executive Management experiences in various multinational companies. At present, he is the Chief Executive Officer of Oman Hotels and Tourism Company SAOC (OHTC) and a Board Member and Member of Nomination Remuneration Executive Committee of United Finance Company SAOG (UFC) and National Hospitality Institute (NHI).

7. **Mr. Khalid Abdullah Salim Al Eisri** is a Senior Manager at the Oman Investment Authority (OIA). The Fund is an investment vehicle of the Government of Oman and manages a portfolio of local and international investments. He joined OIA in 2009 and has 15 years of working experience in the investment sector.He has been on the Board of many local and international company boards such as RAK Ceramic, Al-Hosn Investment, Oman Growth Fund, Oman Emirates Investment Holding, Ubhar Capital, Retail Arabia International, Rotary Engineering and others. Prior to OIA, Khalid worked for Gulf Investment Services, a leading listed investment banking service company in Oman. He worked in the Corporate Advisory department and was in charge of managing public offering, developing feasibility reports, providing M&A advisory services and other specialized assignments. He is a Chartered Financial Analyst (CFA) and has a Bachelor degree from the College of Commerce at the Sultan Qaboos University. He is currently a member of the Audit and Risk Committee of United Finance Company SAOG

Details of attendance of Board Members for Board Meetings during 2020

	Board Member	Board Meeting Dates							
		28/01/2020	02/04/2020	11/05/2020	15/06/2020	23/07/2020	28/07/2020	27/10/2020	15/12/2020
1	Mr. Mohamed AbdullaAl Khonji	-	YES	YES	YES	YES	YES	YES	YES
2	HE Hassan Ihsan Naseeb Al Nasib	YES	YES	YES	YES	YES	YES	YES	YES
3	Mr. Hussam Hisham Omar Bostami	YES	YES	YES	YES	YES	YES	YES	YES
4	Mr. Waseem Salah Qaraeen	YES	YES	YES	YES	YES	YES	YES	YES
5	Dr.Mohammed Sulaiman Ahmed Saeed Al Houqani	YES	YES	YES	YES	YES	YES	YES	YES
6	Mr. Fairborz Vassali	YES	YES	YES	YES	YES	YES	YES	YES
7	Mr. Khalid Abdullah Salim Al Eisri	-	YES	YES	YES	YES	YES	YES	YES

Details of attendance of Board members for AGM during 2020

	Board Member	AGM 21/05/2020
1	Mr. Mohamed Abdulla Al Khonji, Chairman	Yes
2	HE. Hassan Ihsan Naseeb Al Nasib, Deputy Chairman	Yes
3	Mr. Hussam Hisham Omar Bostami	Yes
4	Mr. Waseem Salah Qaraeen	Yes
5	Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani	Yes
6	Mr. Fariborz Vessali	Yes
7	Mr. Khalid Abdullah Salim Al Eisri	Yes

Details of Membership of Other Boards:

	Board Member	No. of other Chairmanships, Directorships and memberships of other committees (excluding UFC)	
		Chairmanship in SAOG Co.	Directorship in SAOG Co.
1	Mr. Mohamed Abdulla Al Khonji, Chairman	-	3
2	HE. Hassan Ihsan Naseeb Al Nasib, Deputy Chairman	2	1
3	Mr. Hussam Hisham Omar Bostami	-	2
4	Mr. Waseem Salah Qaraeen	-	2
5	Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani	-	1
6	Mr. Fariborz Vessali	-	1
7	Mr. Khalid Abdullah Salim Al Eisri	-	1

III Board Committees:

1. Brief description of Terms of Reference:

A. Audit & Risk Committee

- Considering the names of the statutory auditors in the context of their independence (particularly with reference to any other non-audit services), fee and terms of engagement and recommending its name to the board for putting before AGM for appointment.
- Reviewing audit plan and results of the audit and ensuring that auditors have full access to all relevant documents information.
- Checking financial fraud particularly fictitious and fraudulent portions of the financial statement if any. They should put in place an appropriate system to ensure adoption of appropriate accounting policies and principles leading to fairness in financial statements.
- Supervision of the internal audit function in general and with particular reference to reviewing of scope of internal audit plan for the year, reviewing the reports of internal auditors pertaining to critical areas, reviewing the efficacy of the internal auditing and reviewing as to whether internal auditors have full access to all relevant documents.
- Overseeing the adequacy of the internal control system through the regular reports of the internal and external auditors. They may appoint external consultants if the need arises.
- Overseeing the financial statements in general and with particular reference to review of annual and quarterly financial statements before issue, review of qualifications in the draft financial statements and discussion of accounting principles.In particular, change in accounting policies, principles and accounting estimates in comparison to previous year, any adoption of new accounting policy, any departure from International Accounting Standards (IAS) and non-compliance with disclosure requirements prescribed by CMA should be critically reviewed.
- Serving as a channel of communication between external auditors and the board and also internal auditors and the board.
- Reviewing risk management policies and looking into the reasons of defaults in payment obligations of the company, if any.
- Reviewing proposed specific transactions with related parties for making suitable recommendations to the board and setting rules for entering into small value transactions with related parties without obtaining prior approval of audit committee and the board.
- Review and recommend suitable course of action to the Board or Management as deemed fit on reports submitted by Internal Auditor or an external / statutory authority on suspected frauds, if any, committed by staff members and / or borrowers.
- Review and ensure that ethical practices are followed.
- Review and ensure that the company complies with all legal requirements.
- Determine that internal systems and controls are adequate and effective.
- Ensure that institutional credit policies and procedures are followed.
- Recommend the selection of the external auditor in consultation with the Management.
- Review that the published financial statements are not misleading.
- Assess issues relating to conflicts of interest and related party transactions and to ensure compliance with regulatory norms.
- Evaluate in general the adequacy and reliability of information available for Management decisions.
- Review with the Company's counsels any legal matters that could have a material impact on the Company's financial statements, the Company's compliance with applicable laws and regulations and enquiries received from regulators or governmental agencies.
- The audit committee shall hear the views of internal and external auditors separately, at least once every year, without the presence of the Management.
- The audit committee shall hear the views of the external auditors before forwarding the annual accounts to the board for approval.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Approve all audit and non-audit services.

B. Nomination Remuneration and Executive Committee

- Decide on all proposals exceeding management authority as per the Authorities Manual.
- Review Credit Policy and new Products and make recommendations to Board.
- Review management analysis for reasons, review follow up adequacy, discuss measures for avoidance of similar cases in future in relation to Non-performing accounts. It is expected that NPAs will be reviewed by this committee as specified under Authorities Manual.
- Review periodically, at least once in six months, the adequacy of provisions based on management reports.
- Submit to the Board an annual plan of action.
- Review the nominations for board membership received by the company and make suitable recommendations to the Board for further appropriate action, as per the local regulations / laws.
- Identify and nominate, for the approval of the Board and ultimately the shareholders, candidates to fill Board vacancies as and when they arise as well as putting in place plans for succession, in particular with respect to the Chairman of the Board and the Chief Executive Officer.
- Prepare the detailed job description of the roles and responsibilities for the directors including the Chairman.
- Review regularly the Board structure, size, composition, competencies and make recommendations to the Board for adjustments that are deemed necessary, in order to ensure an adequate size and a well-balanced composition of the Board and to ensure that the required number of the Board members are independent, which will ensure formation of its committees as per regulation.
- Consider succession and emergency planning, taking into account the challenges and opportunities facing the Company and the skills and expertise therefore needed on the Board, reporting on these matters to the Board regularly.
- Review the leadership needs of the organisation, with a view to ensuring the continued ability of the Company to compete effectively in the market place.
- Devise a procedure for periodic performance evaluation of the Board of Directors.
- Evaluate the balance of skills, knowledge and experience on the Board, and in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment, before a director's appointment is made by the Board,
- Ensure the development of guidelines for selecting candidates for election / re-election to the Board, or to fill temporary vacancies on the Board; and
- Review terms of reference periodically for its effectiveness and recommend any changes to the Board, if required.
- Formulate "Succession Plan" for key senior managerial positions to ensure continuity in the Management, taking into account the challenges and opportunities facing the Company
- Prepare succession policy or plan for the Board or at least for the Chairperson
- Determine board remuneration, sitting fees etc., based on performance of the Board in compliance with statutory limits
- Review and recommend the strategy and annual budgets to the Board.
- Review, recommend new products, opening of new branches, strategic alliances etc., to the Board
- Take into account future expansion and recommend construction of new building, including acquiring property to accommodate future needs.
- Formulate and recommend company's CSR strategy and plan and recommend it to the Board, in compliance with AOA and Code of Corporate Governance. Also, evaluate the effects of CSR initiatives
- Review Disaster Recovery and Business Continuity Plan of the company and apprise the changes, if any,

to the Board. In case of disaster, provide guidance to the Management for smooth recovery and restoration of normalcy in operations.

- As per Board's direction, to obtain legal counsel, in matters of legal proceedings by / against the company for any matter, pursue the matters, and apprise the Board on proceedings.
- Provide feedback, concerns and directions to the Management for performance, without actively participating in the operations.
- Encourage Management in promoting ethical behaviour in the company. Approve Code of Ethics to be followed by board members and staff.
- Ensure that compliance culture is encouraged at all levels in the Management.

2 Details of Audit & Risk Committee and Nomination, Remuneration, Executive Committee (NREC) activities during the year:

A. Details of attendance of Board Members for Audit & Risk Committee Meetings during 2020.

Date	Name of the Member and their representation in the Committee		
	Chairman of the committee	Member of the Committee	Member of the Committee
	Mr. Waseem Salah Qaraeen	Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani	Mr. Khalid Abdullah Salim Al Eisri
28.01.2020	YES	YES	-
02.04.2020	YES	YES	YES
11.05.2020	YES	YES	YES
28.07.2020	YES	YES	YES
26.08.2020	YES	YES	YES
26.10.2020	YES	YES	YES
14.12.2020	YES	YES	YES

B. Details of attendance of Board Members for Nomination, Remuneration, Executive Committee Meetings (NREC) during 2020

Date	Name of the Member and their representation in the Committee			
	Chairman of the committee	Member of the Committee	Member of the Committee	Member of the Committee
	Mr. Mohamed Abdulla Al Khonji	HE. Hassan Ihsan Naseeb Al Nasib	Mr. Hussam Hisham Omar Bostami	Mr. Fairborz Vassali
20.01.2020	YES	YES	YES	YES
18.02.2020	YES	YES	YES	YES
18.05.2020	YES	YES	YES	YES
06.07.2020	YES	YES	YES	YES
21.07.2020	YES	YES	YES	YES
01.11.2020	YES	YES	YES	YES
03.11.2020	YES	YES	YES	YES
22.11.2020	YES	YES	YES	YES
03.12.2020	YES	YES	YES	YES
13.12.2020	YES	YES	YES	YES

IV Process of Nomination of the Directors:

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

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

A. The Board of Directors has been paid an amount of RO 70,900 as sitting fees.

S. No.	Board Members	Sitting Fees Paid R.O.
1	Mr. Mohamed Abdulla Al Khonji, Chairman	10,900
2	HE Hassan Ihsan Naseeb Al Nasib	10,750
3	Mr. Hussam Hisham Omar Bostami	10,750
4	Mr. Waseem Salah Qaraeen	9,750
5	Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani	9,750
6	Mr. Fairborz Vassali	10,750
7	Mr. Khalid Abdullah Salim Al Eisri	8,250
	Total	**70,900**

B. During the year the company incurred an annual cost, including variable component of RO 243,116/- in respect of its 5 top officials.

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.

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

C. Evaluation of Internal Auditors: Based on CMA circular No.10/2018 the Board nominated Regional Bureau of Auditors to conduct audit of Internal Auditors the report of Regional bureau of Internal audit is in conformance with IIA Standards, IPPF and CMA guidelines. Regional Bureau has recommended additional documentation to strengthen Internal audit processes which will be implemented going forward.

VI Details of non-compliance by the company:

The company had no occasion to attract penalties or strictures from Muscat Securities Market and Capital Market Authority during the last 3 years. In 2019 the company paid RO 20,000/- as penalty to the Central Bank of Oman. for not fully complying with AML Law 2016 and CBO Circular FM 34. During 2020 and 2018 the company had no occasion to attract penalties from Central Bank of Oman.

VII Means of communication with the shareholders and investors:

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

VIII A. Market Price Data:

2020 / Month	High R.O.	Low R.O.	No. of days traded	No. of Shares traded	Financial Sector MSM Index (Monthly Average)
January	0.086	0.072	3	18,826	6,524.000
February	0.000	0.000	0	0.000	6,515.390
March	0.000	0.000	0	0.000	5,480.650
April	0.078	0.072	2	68,646	5,596.440
May	0.070	0.070	1	200,000	5,556.450
June	0.063	0.063	1	7,976	5,601.410
July	0.063	0.058	3	14,015	5,699.060
August	0.065	0.060	6	34,337	6,119.720
September	0.059	0.059	1	10,000	5,846.200
October	0.059	0.039	9	1,667,174	5,622.935
November	0.041	0.035	15	7,850,297	5,710.685
December	0.047	0.036	18	3,724,995	5,645.220

Shares are quoted based on RO 0.100 as par value

B. Distribution of shareholding:

SHAREHOLDERS (5% and ABOVE) AS ON 31.12.2020					
Sl. No.	Name	Nationality	Class of Equity	No. of Shares	%
1	Oman Hotels & Tourism Company SAOC	Omani	Ordinary	117,234,793	33.58%
2	Global Financial Investment Holding SAOG	Omani	Ordinary	44,747,501	12.82%
3	Al Saud Company Ltd - Ubar Financial Investment	Emirati	Ordinary	26,331,515	7.54%
4	Oman Holdings International Company SAOC	Omani	Ordinary	19,731,704	5.65%
	Total			**208,045,513**	**59.59%**
	Others			**141,098,897**	**40.41%**
	Grand Total			**349,144,410**	**100%**

IX Professional profile of Deloitte: Statutory Auditor

Profile of Statutory Auditors

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X Details of audit & other fees for the year 2020

Audit fees	RO.19,750

XI Acknowledgement by Board of Directors

The Board acknowledges that:

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

Mohamed Abdulla Al Khonji
Chairman

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Minaret Al Qurum Building, Level 6
Al Qurum
P.O. Box 258, Postal Code 112
Muscat
Sultanate of Oman

Tel: +968 22354300
Fax: +968 22354333
www.deloitte.com

Independent auditor's report to the shareholders of United Finance Company SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **United Finance Company SAOG** ("the Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Deloitte.

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of investment in finance debtors Net investment in instalment finance debtors comprise 95% of the Company's total assets (as explained in note 11 to the financial statements). The Company has calculated its impairment allowance for instalment finance debtors in accordance with the requirements of IFRS 9 - Financial Instruments. IFRS 9 recognises allowances for expected credit lossess (ECL) with a forward-looking model. During the year, the economic environment and business landscape of the Company changed significantly as a result of the unprecedented outbreak of the Covid – 19 pandemic. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries and sectors. The Central Bank of Oman (CBO) has implemented several measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers, deferment and waiver of interest for affected Omani nationals employed in the private sector, waiver of point of sale charges, lowering of regulatory capital ratios and increasing lending ratios. These measures have been extended until 31 March 2021. A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as: • determining criteria for significant increase in credit risk (SICR); • choosing appropriate models and assumptions for the measurement of ECL; • establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; • establishing portfolios of similar financial assets for the purposes of measuring ECL; and • incorporating post model adjustments to adjust the ECL, considering uncertainties due to Covid-19. The audit team assessed this as a key audit matter due to the complexity, subjectivity and judgments involved in calculation of ECL and its impact on the financial statements of the Company.	Our audit procedures include evaluating the design and implementation and testing the operating effectiveness of the key controls over impairment data and calculations in the following areas: • the identification of loans and advances which requires impairment; • the data transfer from source systems to the ECL model and its output to the general ledger; • the calculation of the allowance for ECL; and • the governance process of finance downgrading, including the continuous re-assessment of the appropriateness of assumptions used in the ECL model. Deloitte's internal experts were engaged to perform audit procedures on the application of IFRS 9. With respect to ECL methodology and models, our procedures included the following: • We assessed the appropriateness of the Company's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; • For a sample of exposures, we assessed the appropriateness of staging; • We assessed and understood the key data sources and reasonableness of factors and assumptions used in the ECL model including, but not limited to, the Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) methodology documents; • We reperformed the calculation of PD, LGD and EAD used in the ECL calculation, after taking into account the adequacy of collateral; • For forward looking assumptions used by management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information; • We evaluated post model adjustments and management overlays in the context of the economic uncertainty arising as a consequence of Covid-19; • We assessed the completeness of instalment finance debtors, off balance sheet items and other financial assets included in the ECL calculation as at 31 December 2020 and tested the arithmetical accuracy of the ECL calculated by the model; • We assessed whether the financial statements disclosures are compliant with the requirements of IFRSs; • We assessed the consistency of various inputs and assumptions used by the management in the ECL model; and • Where relevant, we used our Information System specialists to provide assurance on data integrity.

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

Other information

The Board of Directors ("the Board") is responsible for the other information. The other information comprises the Chairman of Board of Directors' Report, Corporate Governance report and the Management Analysis Report which we obtained prior to the date of this auditors' report. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

Deloitte.

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

Auditor's responsibilities for the audit of the financial statements (continued)

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

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

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

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

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

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

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

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

Deloitte.

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

Auditor's responsibilities for the audit of the financial statements (continued)

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

Report on other legal and regulatory requirements

Further, we report that the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 2019 and the disclosure requirements issued by the Capital Market Authority.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
18 March 2021

Signed by
Ahmed Al Qassabi
Partner
ACCA Membership No. 0820917

C.R. No. 1736256 Deloitte. 0901-01 Deloitte & Touche (M.E.) & Co. LLC

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2020

2020 US$	2019 US$		Notes	2020 RO	2019 RO
19,516,732	21,984,210	Instalment finance income		7,513,942	8,463,921
(6,538,678)	(7,204,670)	Interest expense		(2,517,391)	(2,773,798)
12,978,055	14,779,540	**Net Instalment finance income**		4,996,551	5,690,123
1,205,008	1,655,628	Other income	5	463,928	637,417
(7,667,442)	(9,127,756)	Operating expenses	6	(2,951,965)	(3,514,186)
(260,356)	(287,779)	Depreciation	7	(100,237)	(110,795)
(3,883,865)	(4,964,008)	Impairment on Instalment finance debtors - net	11	(1,495,288)	(1,911,143)
2,371,400	2,055,625	**Profit before tax**		912,989	791,416
(355,709)	(308,342)	Income tax expense	8	(136,948)	(118,712)
2,015,691	1,747,283	**Profit and total comprehensive income for the year**		776,041	672,704
0.006	0.005	**Basic and diluted earnings per share**	21	0.002	0.002

The accompanying notes form an integral part of these financial statements.

Statement of financial position

at 31 December 2020

2020 US$	2019 US$		Notes	2020 RO	2019 RO
		ASSETS			
6,206,553	6,286,428	**Property and equipment**	7	2,389,523	2,420,275
43,956	36,098	Deferred tax asset	8	16,923	13,898
649,351	649,351	Deposit with the Central Bank of Oman	9	250,000	250,000
1,439,351	1,439,351	Investment securities	10	554,150	554,150
221,599,966	255,748,758	Instalment finance debtors	11	85,315,987	98,463,272
362,501	310,982	Other receivables and prepaid expenses	12	139,563	119,728
1,837,906	1,562,265	Cash and bank balance	13	707,594	601,472
232,139,584	266,033,233	**Total assets**		89,373,740	102,422,795
		EQUITY AND LIABILITIES			
		Capital and reserve			
90,686,860	90,686,860	Share capital	14	34,914,441	34,914,441
1,372,473	1,372,473	Share premium reserve	15	528,402	528,402
12,728,413	12,526,844	Legal reserve	16(a)	4,900,439	4,822,835
6,153,218	6,153,218	Special reserve	16(b)	2,368,989	2,368,989
764,971	764,971	Foreign currency reserve	16(c)	294,514	294,514
4,965,548	2,691,148	Impairment reserve	16(d)	1,911,736	1,036,092
1,282,758	1,743,036	Retained earnings		493,862	671,069
117,954,241	115,938,550	**Total equity**		45,412,383	44,636,342
		Liabilities			
95,259,868	116,909,754	Borrowings	18	36,675,049	45,010,255
10,389,610	18,181,818	Corporate deposits	19	4,000,000	7,000,000
8,311,623	13,672,148	Creditors and other payables	20	3,199,975	5,263,777
224,242	1,330,963	Taxation	8	86,333	512,421
114,185,343	150,094,683	**Total liabilities**		43,961,357	57,786,453
232,139,584	266,033,233	**Total equity and liabilities**		89,373,740	102,422,795
0.341	0.332	**Net assets per share**	22	0.130	0.128

The financial statements were approved by the Board of Directors on 28th January 2021 and are signed on their behalf by:

Chairman   Director   Acting Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2020

	Share capital RO	Share premium reserve RO	Legal reserve RO	Special reserve RO	Foreign currency reserve RO	Impairment reserve RO	Retained earnings RO	Total RO
At 1 January 2019	34,914,441	528,402	4,755,564	2,368,989	294,514	-	1,101,728	43,963,638
Profit and total comprehensive income for the year	-	-	-	-	-	-	672,704	672,704
Transfer to impairment reserve						1,036,092	(1,036,092)	-
Transfer to legal reserve	-	-	67,271	-	-	-	(67,271)	-
At 1 January 2020	34,914,441	528,402	4,822,835	2,368,989	294,514	1,036,092	671,069	44,636,342
Profit and total comprehensive income for the year	-	-	-	-	-	-	776,041	776,041
Transfer to impairment reserve	-	-	-	-	-	875,644	(875,644)	-
Transfer to legal reserve	-	-	77,604	-	-	-	(77,604)	-
At 31 December 2020	**34,914,441**	**528,402**	**4,900,439**	**2,368,989**	**294,514**	**1,911,736**	**493,862**	**45,412,383**

The accompanying notes form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2020

	Notes	2020 RO	2019 RO
Profit before taxation		912,989	791,416
Adjustments for:			
Depreciation	7	100,237	110,795
Net Gain on disposal of property and equipment		(15,248)	(505)
Provision for impairment on Instalments finance debtors – net	11	1,495,288	1,911,143
End of service benefits charge for the year	20 (a)	42,832	60,257
Operating profit before changes in operating assets and liabilities		2,536,098	2,873,106
Instalment finance debtors:			
Disbursements		(25,406,182)	(39,747,303)
Principal repayments received		37,058,179	40,840,203
Other receivables and prepayments		(19,835)	(53,804)
Creditors and other payables		(2,039,775)	1,714,284
End of service benefits paid	20 (a)	(66,859)	(246,746)
Income taxes paid	8	(566,061)	(140,040)
Net cash from operating activities		11,495,565	5,239,700
Investing activities			
Purchase of property and equipment	7	(69,487)	(46,310)
Proceeds from sale of property and equipment		15,250	950
Net cash used in investing activities		(54,237)	(45,360)
Financing activities			
Long-term loans received	18	26,150,000	20,000,000
Long-term loans repaid	18	(29,534,731)	(24,206,641)
Net change in short-term loans	18	(5,350,000)	1,350,000
Corporate deposits – net	19	(3,000,000)	(1,900,000)
Net cash used in financing activities		(11,734,731)	(4,756,641)
Net change in cash and cash equivalents		(293,403)	437,699
Cash and cash equivalents at the beginning of the year		394,009	(43,690)
Cash and cash equivalents at the end of the year	13	100,606	394,009

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2020

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 the Sultanate of Oman. The Company has its Head Office in Muscat with branches in Ibra, Ibri, Firq, Sohar, Salalah, Nizwa, Barka and Mawelah, all located within the Sultanate of Oman. The registered address of the Company is P O Box 3652, Postal Code 112, Ruwi, Sultanate of Oman. The Company has a primary listing on the Muscat Stock Exchange.

2. Adoption of new and revised international financial reporting standards (IFRS)

2.1 New and amended IFRS applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these financial statements.

New and revised IFRSs	Effective for annual periods beginning on or after
Definition of a Business - Amendments to IFRS 3 Business Combinations The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	1 January 2020
IFRS 7 Financial Instruments: Disclosures and IFRS 9 - Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform.	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of material The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.	1 January 2020
Amendment to IFRS 16 'Leases' To provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.	1 January 2020

2. Adoption of new and revised international financial reporting standards (IFRS) (continued)

2.1 New and amended IFRS applied with no material effect on the financial statements (continued)

The application of above revised standards has not had impact on the amount reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

2.2 New and amended IFRSs in issue but not yet effective and not early adopted

The IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2021. The Company expects they will have an insignificant effect, when adopted, on the financial statements of the Company.

3. 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.

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 of 2019 and the Capital Market Authority of the Sultanate of Oman.

Basis of preparation

The financial statements are prepared under the historical cost convention and modified to include the application of fair value measurements that are required or allowed by relevant accounting standard.

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 4.

Foreign currency transactions

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

Foreign currency transactions (continued)

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

3. Significant accounting policies (continued)

Recognition of interest income and expenses

Effective interest rate
Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense
In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Presentation
Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

3. Significant accounting policies (continued)

Taxation

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

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

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

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

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:

	Years
Motor vehicles	3
Furniture and office equipment	3 - 6
Buildings	2 - 20

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount. Gains and losses on disposals of property and equipment are determined by reference to their carrying amounts and are recognised in the statement of comprehensive income.

Financial assets and financial liabilities

i) Recognition and initial measurement

The Company initially recognises all regular way purchase and sale of financial assets on the date at which they are originated.

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

ii) Classification

The Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

ii) Classification (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

ii) Classification (continued)

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

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

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

Investment securities
The 'investment securities' caption in the statement of financial position includes:

- equity investment securities designated as at FVOCI.

The Company elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Reclassifications

Financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

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.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

iii) Derecognition

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.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

Instalment finance debtors

'Instalment finance debtors' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(v) Impairment

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

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

No impairment loss is recognised on equity investments.

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

- other financial instruments (including lease receivables) on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

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

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

Restructured financial assets

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

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

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(v) Impairment (continued)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness; and
- The country's ability to access the capital markets for new debt issuance.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: As a provision under creditors and other payables
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

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

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(v) Impairment (continued)

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.

Borrowings and corporate deposits

Borrowings and corporate deposits are recognised initially at fair value, net of transaction costs incurred.

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

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 creditors and other payables in the statement of financial position.

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

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.

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.

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 expired. 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.

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.

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.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

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.

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.

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 in compliance with applicable regulations.

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.

Leases

The Company as lessee

The Company assesses whether contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Leases (continued)

The Company as lessee (continued)

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as a separate line in the statement of financial position.

The Company applies IAS36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in the statement of profit or loss.

As a practical expedient, IFRS16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

The Company as lessor

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

Leases (continued)

The Company as lessor (continued)

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate consideration under the contract to each component.

4 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.

Business models and SPPI assessment
Determining the appropriate business models and assessing the SPPI requirements for financial assets may require significant accounting judgement and have a significant impact on the financial statements. Details of the Company's classification of financial assets and liabilities are given in significant accounting policies in note 3 to the financial statements.

Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 27 to the financial statements, which also sets out key sensitivities of the ECL to changes in these elements.

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Company in the above areas is set out in note 27 to the financial statements.

Impairment losses on Instalment finance debtors – Stage 3 loans

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.

Notes to the financial statements (continued)
For the year ended 31 December 2020

4 Critical accounting estimates and judgements (continued)

Impairment losses on Instalment finance debtors – Stage 3 loans (continued)

The Company reviews its Instalment 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.

Income tax

The Company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments. The amount of such provisions is based on factors such as experience of previous tax assessments and interpretations of tax regulations by the Management and the responsible tax authority.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using certain valuation techniques, derived from observable market data where possible. Where observable market data are not available, judgment is used to establish fair values.

5 Other income

	2020	2019
	RO	RO
Bad debts recovered	117,513	162,534
Penalties charged	53,410	146,529
Documentation fees	81,018	37,754
Foreclosure charges	50,075	60,728
Dividend income	40,963	90,862
Profit on sale of assets	15,248	638
Insurance commission income	89,802	86,299
Others	15,899	52,073
	463,928	637,417

6 Operating expenses

	2020	2019
	RO	RO
Staff costs (note 6.1)	2,018,520	2,396,010
Communication and traveling	180,547	223,810
Repairs and maintenance	187,583	176,167
Insurance	133,618	131,877
Fees and charges	41,754	69,064
Rent	59,040	62,880
Bank charges	57,042	16,767
Directors' sitting fees (note 24)	70,900	76,100
Statutory and legal expenses	58,611	56,316
Utilities	19,876	21,877
Advertising and business promotion expenses	11,263	18,221
Loss on sale of assets	-	133
Others	113,211	264,964
	2,951,965	3,514,186

6.1 Staff costs

	2020	2019
Wages and salaries	1,703,452	1,970,862
Other benefits	159,805	249,142
Contributions towards the PASI	112,431	115,749
End of service benefits (note 20a)	42,832	60,257
	2,018,520	2,396,010

Notes to the financial statements (continued)
For the year ended 31 December 2020

7 Property and equipment

	Land	Buildings	Motor vehicles	Furniture and office equipment	Total
	RO	RO	RO	RO	RO
Cost					
1 January 2019	1,969,215	769,966	44,500	1,225,384	4,009,065
Additions	-	-	-	46,310	46,310
Disposals	-	-	-	(32,892)	(32,892)
1 January 2020	1,969,215	769,966	44,500	1,238,802	4,022,483
Additions	-	-	-	69,487	69,487
Disposals	-	-	(44,500)	-	(44,500)
31 December 2020	1,969,215	769,966	-	1,308,289	4,047,470
Depreciation					
1 January 2019	-	445,265	43,805	1,034,790	1,523,860
Charge for the year	-	38,491	693	71,611	110,795
Disposals	-	-	-	(32,447)	(32,447)
1 January 2020	-	483,756	44,498	1,073,954	1,602,208
Charge for the year	-	38,490	-	61,747	100,237
Disposals	-	-	(44,498)	-	(44,498)
31 December 2020	-	522,246	-	1,135,701	1,657,947
Carrying value					
31 December 2020	1,969,215	247,720	-	172,588	2,389,523
31 December 2019	1,969,215	286,210	2	164,848	2,420,275

8 Taxation

Charge in the statement of comprehensive income is as follows:

	2020 RO	2019 RO
Statement of comprehensive income:		
Tax charge / (income):		
Current tax	139,973	122,853
Deferred tax	(3,025)	(4,141)
	136,948	118,712

	2020 RO	2019 RO
Breakup of tax liability and deferred tax asset are as follows:		
Current liability		
Current year	139,973	122,853
Prior years	(53,640)	389,568
	86,333	512,421
Deferred tax asset		
At 1 January	13,898	9,757
Movement during the year	3,025	4,141
At 31 December	16,923	13,898
The deferred tax asset comprises of the following temporary differences		
Depreciation on property and equipment	16,923	13,898

The reconciliation of the tax on accounting profit at the applicable rate of 15% (2019 : 15%) and the taxation charge in the financial statements is as follows:

	2020 RO	2019 RO
Profit before taxation	912,989	791,416
Taxation at the applicable tax rate	136,948	118,712
Add / (less) tax effect of:		
Non - deductible expenses	-	-
Deductible expenses	-	-
Tax expense	136,948	118,712
The movement in the current tax liability is as follows:		
At 1 January	512,421	529,608
Charge for the year	139,973	122,853
Paid during the year	(566,061)	(140,040)
At 31 December	86,333	512,421

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.

The Company's tax assessments have been agreed with the tax authorities up to tax year 2016 except for the tax years 2011, 2012 and 2013. Company has filed objections against the decisions of Secretariat General for Taxation in respect of certain disallowances for these tax years.

9 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 Instalment 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% (2019 : 1.5%) per annum.

10 Investment securities

	2020 RO	2019 RO
Al-Soor International Holding Company (Kuwait)	554,149	554,149
National Bureau of Commercial Information	1	1
	554,150	554,150

These represent unquoted investments classified as fair value through other comprehensive income. The fair value of investment in the unquoted security (Al Soor International Holding Company) was performed as of 31 December 2020 by Global Financial Investment Holding SAOG (the majority shareholder of the Company). The valuer has appropriate qualification and recent experience in the fair value assessment of similar securities. The fair value of unquoted security was determined based on discounted cash flow method and income approach method (Level 3 fair value hierarchy).

11 Instalment 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 in note 27 to the financial statements.

Instalment finance debtors arising from financing activities

	2020 RO	2019 RO
Gross Instalment finance debtors	115,206,549	130,830,504
Unearned finance income	(12,945,440)	(15,617,542)
Net Instalment finance debtors	102,261,109	115,212,962
Debt factoring activity debtors	897,671	651,415
	103,158,780	115,864,377
Provision for expected credit losses	(14,042,473)	(14,081,921)
Unrecognised contractual income	(3,800,320)	(3,319,184)
	85,315,987	98,463,272

11 Instalment finance debtors (continued)

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

The table below represents analysis of gross Instalment finance debtors and present value of Instalment finance debtors for each of the following years:

	Upto 1 year	1 to 5 years	Above 5 years	Total
At 31 December 2020	RO	RO	RO	RO
Gross Instalment finance debtors finance and debt factoring activities debtors	**56,489,517**	**57,368,551**	2,246,152	116,104,220
Instalment finance and debt factoring activities debtors net of unearned interest	**50,897,589**	**50,138,788**	**2,122,403**	**103,158,780**
At 31 December 2019				
Gross Instalment finance debtors finance and debt factoring activities debtors	58,596,498	69,324,940	3,560,481	131,481,919
Instalment finance and debt factoring activities debtors net of unearned interest	51,901,900	60,624,632	3,337,845	115,864,377

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:

	Provision		
2020	**Principal**	**Interest**	**Total**
	RO	**RO**	**RO**
At 1 January 2020	**14,081,921**	**3,319,184**	**17,401,105**
Charged during the year	**3,152,607**	**821,113**	**3,973,720**
Released during the year	**(1,657,319)**	**(206,129)**	**(1,863,448)**
Written off during the year	**(1,534,736)**	**(133,848)**	**(1,668,584)**
At 31 December 2020	**14,042,473**	**3,800,320**	**17,842,793**
At 1 January 2019	12,170,778	2,642,423	14,813,201
Charged during the year	3,940,058	918,729	4,858,787
Released during the year	(2,028,915)	(241,968)	(2,270,883)
At 31 December 2019	14,081,921	3,319,184	17,401,105

Contractual interest is not recognised by the Company so as to comply with the rules, regulations and guidelines issued by Regulators against instalment finance contract receivables from the month in which the receivables are impaired i.e. overdue by more than 89 days. As at 31 December 2020, the total balance of finance debtors on which interest has not been recognised amounted to RO 27.31 million (2019 : RO 26.76 million).

12 Other receivables and prepaid expenses

	2020	2019
	RO	RO
Prepaid expenses	**24,465**	44,300
Advances	**41,431**	12,260
Other receivables	**73,667**	63,168
	139,563	119,728

13 Cash and cash equivalents

	2020	2019
Bank and cash balances	**707,458**	601,271
Call deposits	**136**	201
Cash and bank balances	**707,594**	601,472
Less: bank overdrafts (note 18)	**(606,988)**	(207,463)
	100,606	394,009

Call deposits are placed with a commercial bank in the Sultanate of Oman with annual interest rate of 0.25% (2019 : 0.25%) per annum.

14 Share capital

Share capital comprises 349,144,411 (2019 : 349,144,411) fully paid shares of RO 0.100 each. The Company's authorised share capital is RO 50,000,000 (2019 : RO 50,000,000).

The shareholders who own 5% or more of the Company's shares are as follows:

	Number of shares		*Percentage of holding (%)*	
.	**2020**	2019	**2020**	2019
Oman Hotels and Tourism Company SAOC	**117,234,793**	117,234,793	**33.58**	33.58
Global Financial Investments Holding SAOG	**44,747,501**	44,747,501	**12.82**	12.82
Al Saud Company Ltd - Ubar Financial Investment	**26,331,515**	26,331,515	**7.54**	7.54
Oman Holdings International Company SAOC	**19,731,704**	19,731,704	**5.65**	5.65

15 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.

16 Reserves

(a) Legal reserve

In accordance with Article 132 of the Commercial Companies Law of 2019, the Company sets aside ten percent of the net profits, after deduction of taxes, for establishing a legal reserve until such legal reserve amounts to at least one third of the Company's share capital. Such legal reserve may be used for covering the Company's losses and the increase of its share capital by way of issuing shares and it shall not be distributed to the shareholders as dividends except where the Company reduces its share capital, provided that the legal reserve shall not be less than one third of the share capital after the reduction.

(b) Special reserve

As per policy, the Company creates a special reserve to the extent of 1% of loans disbursed each year till it reaches 2% of the net Instalment finance debtors. The special reserve is being maintained to cover any delinquencies arising from unforeseen contingencies. During 2020, the Company has not made any transfer to special reserve (2019: nil).

Special reserve is not available for distribution without prior approval of the 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.

(d) Impairment reserve

As per Circular 1149 of the guidelines issued by the Central Bank of Oman, the Company is required to create an impairment reserve in equity for an amount equal to excess of the provision for non-performing loans computed under CBO guidelines compared to provisions for expected credit losses computed under IFRS 9 on Instalment finance debtors. Accordingly, the Company has created an impairment reserve of RO 1.91 million as at reporting date (2019 : RO 1.04 million).

17 Dividends proposed and paid

The Board of Directors have not recommended dividend for the years 2020 and 2019.

18 Borrowings

	2020	2019
	RO	RO
Short-term loans	14,500,000	19,850,000
Current portion of long-term loans	16,484,723	22,376,403
Bank overdrafts (note 13)	606,988	207,463
Short-term borrowings	31,591,711	42,433,866
Long-term portion of term loans	5,083,338	2,576,389
	36,675,049	45,010,255

18 Borrowings (continued)

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.

The Company borrows from commercial banks and others at interest rates ranging from 4.75% to 6.75% (2019 : 4.5% to 5.25 %) per annum. The interest rates on overdrafts and short-term loans are subject to change at the discretion of the banks, upon renewal of the facilities.

The fair value of the loans approximate their carrying value as these loans carries interest rates which approximates market interest rates.

The related interest rate risk and maturity profile are shown in note 27 to the financial statements.

19 Corporate deposits

The Company accepts term deposits from corporate customers in accordance with the CBO guidelines for a minimum period of 6 months. The interest rate and maturity profile are given in note 27 to the financial statements.

20 Creditors and other payables

	2020	2019
	RO	RO
Trade creditors	1,772,324	3,918,426
End of service benefits (note 20.1)	338,705	362,732
Interest payable	238,508	232,229
Accrued expenses	168,925	154,404
Advances received from customers	310,088	224,877
Others	371,425	371,109
	3,199,975	5,263,777

20.1 End of service benefits

	2020	2019
	RO	RO
At 1 January	362,732	549,221
Charge for the year	42,832	60,257
Payments made during the year	(66,859)	(246,746)
At 31 December	338,705	362,732

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.

	2020	2019
Profit for the year (RO)	776,041	672,704
Weighted average number of shares	349,144,411	349,144,411
Basic earnings per share for the year (RO)	0.002	0.002

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:

	2020	2019
Net asset value (RO)	45,412,383	44,636,342
Number of ordinary shares outstanding	349,144,411	349,144,411
Net asset per share (RO)	0.130	0.128

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

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2020

23 Segmental information (continued)

The segment information provided to the Management Committee for the reportable segments for the year ended 31 December 2020 is as follows:

31 December 2020	Corporate	Retail	Others (insurance and debt factoring)	Unallocated items	Total
	RO	RO	RO	RO	RO
Segmental revenues					
Instalment finance income	4,673,064	2,744,498	96,380	-	7,513,942
Interest expense	(1,585,956)	(931,435)	-	-	(2,517,391)
Net instalment finance income	3,087,108	1,813,063	96,380	-	4,996,551
Other income	-	-	92,309	371,619	463,928
Segmental expenses					
Operating expenses	(1,859,738)	(1,092,227)	-	-	(2,951,965)
Depreciation	-	-	-	(100,237)	(100,237)
Profit before tax and provision for impairment	1,227,370	720,836	188,689	271,382	2,408,277
Provision for impairment-net	(942,031)	(553,257)	-	-	(1,495,288)
Segmental profit for the year before tax	285,339	167,579	188,689	271,382	912,989
Income tax expense	-	-	-	(136,948)	(136,948)
Segmental profit for the year	285,339	167,579	188,689	134,434	776,041
Total assets	53,749,072	31,566,915	-	4,057,753	89,373,740
Total liabilities	-	-	-	43,961,357	43,961,357

23 Segmental information (continued)

31 December 2019	Corporate	Retail	Others (insurance and debt factoring)	Unallocated items	Total
	RO	RO	RO	RO	RO
Segmental revenues					
Instalment finance income	5,226,868	3,203,564	33,489	-	8,463,921
Interest expense	(1,719,755)	(1,054,043)	-	-	(2,773,798)
Net instalment finance income	3,507,113	2,149,521	33,489	-	5,690,123
Other income	-	-	87,451	549,966	637,417
Segmental expenses					
Operating expenses	(2,178,795)	(1,335,391)	-	-	(3,514,186)
Depreciation	-	-	-	(110,795)	(110,795)
Profit before tax and provision for impairment	1,328,318	814,130	120,940	439,171	2,702,559
Provision for impairment-net	(1,184,909)	(726,234)	-	-	(1,911,143)
Segmental profit for the year before tax	143,409	87,896	120,940	439,171	791,416
Income tax expense	-	-	-	(118,712)	(118,712)
Segmental profit for the year	143,409	87,896	120,940	320,459	672,704
Total assets	61,047,229	37,416,043	-	3,959,523	102,422,795
Total liabilities	-	-	-	57,786,453	57,786,453

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 comprehensive income are as follows:

	2020	2019
	RO	RO
Directors' sitting fees (note 6)	70,900	76,100
Other related parties		
Instalment finance income	121,499	8,796
Legal expenses	-	18,231

Notes to the financial statements (continued)
For the year ended 31 December 2020

24 Related parties (continued)

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

	2020	2019
	RO	RO
Disbursements:		
Other related parties	652,088	39,980
Collections:		
Other related parties	508,910	63,409
Amounts due from related parties:		
Instalment finance debtors due	2,044,097	1,041,834

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

Amounts due to related parties:

	2020	2019
Lease financing	469,361	1,715,333
Amount due	31,000	130,848
Compensation of the key management personnel is as follows :		
Salaries and allowances	136,081	263,876
End of service benefits	5,658	66,958
	141,739	330,834

25 Contingent liabilities

At 31 December 2020, there were contingent liabilities of RO 509,591 (2019 : RO 440,175) in respect of financial guarantees and letter of credit 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 and letter of Credit are covered by counter guarantees from the customers in addition to other securities.

26 Fair value information

It is the Company's intention to hold loans and advances to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The Company considers that the fair value of financial instruments at 31 December 2020 and 2019 are not significantly different to their carrying value at each of those dates.

Fair value hierarchy

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

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

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

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

26 Fair value information (continued)

	Total RO	Level 1 RO	Level 2 RO	Level 3 RO
31 December 2020				
Financial Instruments measured FVTOCI	**554,150**	**-**	**-**	**554,150**
31 December 2019				
Financial Instruments measured FVTOCI	554,150	-	-	554,150

During the reporting periods ended 31 December 2020 and 31 December 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

27 Financial risk management

The Company's activities expose it to variety of financial risks: credit risk, market risk (including foreign exchange risk and interest rate risk), liquidity risk and operational risk. The Company continuously strives 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 sets the overall risk parameters and tolerances and the significant risk management parameters & associated policies. The Audit and Risk Committee of the Board reviews and reports to the Board of Directors on the Company's risk profile and risk taking activities. The Asset Liability Management committee (ALCO), chaired by the CEO reviews the risks associated to liquidity, foreign exchange risk & interest rate risk. Risk Management department on a quarterly basis provide detailed report to the Audit and Risk Commitee covering all the aspects of Risk Management framework. 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.

Credit risk

The measurement of ECL under IFRS 9 uses the information and approaches that the Company uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed separately in significant accounting policies in note 3 to the financial statements.

Credit risk is the risk of suffering financial loss, should any of the Company's customers, clients or market counterparties fail to fulfil their contractual obligations to the Company. Credit risk arises mainly from consumer financing, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as), financial guarantees, endorsements and acceptances.

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)

Credit risk (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	
	2020 RO	2019 RO
Instalment finance debtors	**103,158,780**	115,864,377
Bank balances and deposits (including deposit with CBO)	**915,099**	765,123
Other receivables	**73,667**	63,168
Total credit risk exposure	**104,147,546**	116,692,668

Collateral held and other credit enhancement

The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company since the prior period. The underlying asset subject to lease is held as a a collateral in addition to personal guarantees of the lessee and other properties in certain cases.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer below notes for a description of how the Company determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer below for description of how the Company defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer below for description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Please refer below for estimating impairment for explanation of how the Company has incorporated this in its ECL models.

27 Financial risk management (continued)

Credit risk (continued)

Expected credit loss measurement (continued)

Credit risk allocation

The Company allocates each exposure to a credit risk bucket based on days past due and other variety of data (quantitative and qualitative factors) that is determined to be predictive of the risk of default and applying experienced credit judgement. These factors vary depending on the nature of the exposure and the type of borrower.

The ageing of financial receivables that were not impaired at the reportin date is as follows:

	2020	2019
	RO	RO
Neither past due nor impaired	70,375,734	77,511,138
Past due 1-30 days	3,573,164	6,073,126
Past due 31-60 days	1,596,172	3,210,946
Past due 61-89 days	307,361	2,310,020
	75,852,431	89,105,230

The total impaired assets as at 31 December 2020 amounts to RO 27.3 million (2019 : RO 26.8 million).

Credit risk buckets are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk buckets.

Generating the term structure of PD

Credit risk buckets are primary inputs into the determination of the term structure of PD for exposures. The Company collects performance information about its credit risk exposures analysed by type of product and borrower as well as by credit risk buckets.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors on the risk of default.

For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices. Based on advice from Risk Management Committee and economic experts and consideration of a variety of external actual and forecast information, the Company formulates a 'base scenario' of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

Notes to the financial statements (continued)
For the year ended 31 December 2020

27 Financial risk management (continued)

Credit risk (continued)

Expected credit loss measurement (continued)

Significant increase in credit risk (SICR)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Quantitative criteria for determining the significant increase in credit risk are summarized in the below table:

Portfolio	Days past due
Corporate	More than 30 days
Retail	More than 30 days

Further, as per CBO guidance BM 1149 circular, in respect of corporate borrowers where the exposure is RO 500,000 or more, the Company also considers the occurrence of any one or more of the following events as evidence of significant increase in credit risk:

- Inadequate or unreliable financial and other information such as unavailability of audited financial statements.
- Non-cooperation by the borrower in matters pertaining to documentation.
- Borrower is the subject of litigation by third parties that may have a significant impact on his financial position.
- Frequent changes in senior management.
- Intra-group transfer of funds without underlying transactions.
- Deferment / delay in the date for commencement of commercial operations by more than one year.
- Modification of terms resulting in concessions granted to the borrower including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, FLCs may be guided by the extant instructions of CBO in regard to treating an account as restructured.
- A fall of 25 percent or more in the turnover or in the earnings before interest and taxes (EBIT) as compared to the previous year.
- Erosion in net worth by more than 20 percent as compared to the previous year end coupled with an increase in leverage.
- A fall in the debt service coverage ratio to below 1.

Definition of default and credit-impaired assets

The Company considers a financial asset to be in default and credit impaired when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the borrower is past due more than 89 days on any material credit obligation to the Company. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default and credit impaired, the Company considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. 90 days overdue status and non-payment on another obligation of the same borrower to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

27 Financial risk management (continued)

Credit risk (continued)

Measuring ECL - explanation of inputs, assumptions and estimation techniques

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described below :

PD estimates are estimates at a certain date, which are calculated using statistical models tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between buckets, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of Default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for undrawn loan commitment, the Company measures ECL over a period longer than the maximum contractual period if the Company's contractual ability to cancel the undrawn commitments does not limit the Company's exposure to credit losses to the contractual notice period. The Company can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Company becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Company expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Forward-looking information incorporated in the ECL models

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Risk Management Committee and economic experts and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

Notes to the financial statements (continued)
For the year ended 31 December 2020

27 Financial risk management (continued)

Credit risk (continued)

Forward-looking information incorporated in the ECL models (continued)

This process involves developing additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The economic scenarios used as at 31 December 2020 included the following ranges of key indicators for Sultanate of Oman for the years ending 31 December 2021 to 2025.

	2021	2022	2023	2024	2025
GDP growth	-0.50%	11%	3.5%	3.5%	3.1%

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed considering Company's historical data and readily available papers issued by Basel committee on banking supervision.

Sensitivity analysis

Set out below are the changes to the ECL as at 31 December 2020 that would result from reasonably possible changes in parameters from the actual assumptions used in the Company's economic variable assumptions.

Retail / corporate portfolios

	[+1%]	No change	[-1%]
	RO	RO	RO
GDP growth	800,271	890,201	1,004,495

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Notes to the financial statements (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

Credit risk (continued)

Credit quality analysis

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in significant accounting policies in Note 3.

	2020				2019
	ECL Staging				
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total
	RO	RO	RO	RO	RO
Instalment finance debtors:					
Standard	68,308,871	7,543,560	-	75,852,431	89,105,230
Special mentioned/watch list	-	-	2,441,763	2,441,763	3,849,829
Substandard	-	-	1,616,515	1,616,515	1,776,893
Doubtful	-	-	1,284,023	1,284,023	1,482,071
Loss	-	-	21,964,048	21,964,048	19,650,354
	68,308,871	7,543,560	27,306,349	103,158,780	115,864,377
Loss allowance	(601,222)	(286,553)	(16,952,592)	(17,840,367)	(17,399,460)
Carrying amount	67,707,649	7,257,007	10,353,757	85,318,413	98,464,916
Undrawn Commitments	820,453	-	-	820,453	855,538
Loss allowance	2,426	-	-	2,426	1,645
Carrying amount	67,705,223	7,257,007	10,353,757	85,315,987	98,463,272

Amounts arising from ECL

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

Write-off policy

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Company may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2020 was amounted to RO 1.67 million (2019: Nil).

Notes to the financial statements (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

Credit risk (continued)

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

31 December 2020

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Net carrying amount as per CBO RO'000	Net carrying amount as per IFRS 9 RO'000	Interest recognized as per IFRS 9 norms RO'000	Reserve interest as per CBO norms RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(4)-(10)	(8)	(9)	(10)
	Stage 1	68,309	283	604	(321)	68,026	67,705	5,457	-
Standard	Stage 2	7,544	11	287	(276)	7,533	7,257	605	-
	Stage 3	-	-	-	-	-	-	-	-
		75,853	294	891	(597)	75,559	74,962	6,062	-
	Stage 1	-	-	-	-	-	-	-	-
Special mention	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,442	286	286	-	2,156	2,156	142	162
		2,442	286	286	-	2,156	2,156	142	162
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,616	499	565	(66)	1,117	1,051	57	125
		1,616	499	565	(66)	1,117	1,051	57	125
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,284	674	733	(59)	610	551	27	148
		1,284	674	733	(59)	610	551	27	148
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	21,964	18,339	15,368	2,971	3,625	6,596	14	3,365
		21,964	18,339	15,368	2,971	3,625	6,596	14	3,365
	Stage 1	68,309	283	604	(321)	68,026	67,705	5,457	-
Total	Stage 2	7,544	11	287	(276)	7,533	7,257	605	-
	Stage 3	27,306	19,798	16,952	2,846	7,508	10,354	240	3,800
	Total	103,159	20,092	17,843	2,249	83,067	85,316	6,302	3,800

Notes to the financial statements (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

Credit risk (continued)

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

31 December 2019

Assets classification as per CBO Norms [1]	Assets classification as per IFRS 9 [2]	Gross carrying amount RO'000 [3]	Provision required as per CBO Norms RO'000 [4]	Provisions held as per IFRS 9 RO'000 [5]	Difference between CBO provision required and provision held RO'000 [6]=[4]-[5]	Net carrying amount as per CBO RO'000 [7]=[3]-[4]-[10]	Net carrying amount as per IFRS 9 RO'000 [8]	Interest recognized as per IFRS 9 norms RO'000 [9]	Reserve interest as per CBO norms RO'000 [10]
Standard	Stage 1	79,808	-	146	(146)	79,808	79,662	6,205	-
	Stage 2	9,297	580	950	(370)	8,717	8,347	943	-
	Stage 3	-	-	-	-	-	-	-	-
		89,105	580	1,096	(516)	88,525	88,009	7,148	-
Special mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,850	453	476	(23)	3,397	3,374	290	248
		3,850	453	476	(23)	3,397	3,374	290	248
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,777	564	656	(92)	1,213	1,121	68	157
		1,777	564	656	(92)	1,213	1,121	68	157
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,482	749	881	(132)	733	601	14	190
		1,482	749	881	(132)	733	601	14	190
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	19,650	16,274	14,292	1,982	3,376	5,358	8	2,724
		19,650	16,274	14,292	1,982	3,376	5,358	8	2,724
Total	Stage 1	79,808	-	146	(146)	79,808	79,662	6,205	-
	Stage 2	9,297	580	950	(370)	8,717	8,347	943	-
	Stage 3	26,759	18,040	16,305	1,735	8,719	10,454	380	3,319
	Total	115,864	18,620	17,401	1,219	97,244	98,463	7,528	3,319

Notes to the financial statements (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

Credit risk (continued)

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

The gross carrying amount in the above table represents the classification of loans as per the requirements of IFRS 9.

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Company has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Company had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Renegotiated finance debtors as at 31 December 2020 was RO 2.68 million (2019 : RO 2.75 million). Out of these finance debtors amounting to RO 1.94 million (2019 : RO 1.85 million) were impaired at the time of renegotiation.

Restructured accounts **31 December 2020**

Assets classification as per CBO Norms [1]	Assets classification as per IFRS 9 [2]	Gross carrying amount [3] RO'000	Provision required as per CBO Norms [4] RO'000	Provisions held as per IFRS 9 [5] RO'000	Difference between CBO provision required and provision held [6]=[4]-[5] RO'000	Net carrying amount as per CBO [7]=[3]-[4]-[10] RO'000	Net carrying amount as per IFRS9 [8] RO'000	Interest recognized as per IFRS 9 [9] RO'000	Reserve interest as per CBO norms 10 RO'000
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Sub total		-	-	-	-	-	-	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,692	1,658	1,688	(30)	1,034	1,004	7	498
		2,692	1,658	1,688	(30)	1,034	1,004	7	498
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,692	1,658	1,688	(30)	1,034	1,004	7	498
	Total	2,692	1,658	1,688	(30)	1,034	1,004	7	498

Notes to the financial statements (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

Credit risk (continued)

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

Loans with renegotiated terms (continued)

31 December 2019

Assets classification as per CBO Norms [1]	Assets classification as per IFRS 9 [2]	Gross carrying amount [3]	Provision required as per CBO Norms [4]	Provisions held as per IFRS 9 [5]	Difference between CBO provision required and provision held [6]=[4]-[5]	Net carrying amount as per CBO [7]=[3]-[4]-[10]	Net carrying amount as per IFRS9 [8]	Interest recognized as per IFRS 9 [9]	Reserve interest as per CBO norms 10
Classified as performing	Stage 1	-	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	-	
	Stage 3	-	-	-	-	-	-	-	
Sub total		-	-	-	-	-	-	-	
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	-	
	Stage 3	2,771	1,532	1,578	(46)	1,239	1,193	7	450
		2,771	1,532	1,578	(46)	1,239	1,193	7	450
Total	Stage 1	-	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	-	
	Stage 3	2,771	1,532	1,578	(46)	1,239	1,193	7	450
	Total	2,771	1,532	1,578	(46)	1,239	1,193	7	450

Impairment allowance and loss

	As per CBO Norms		As per IFRS 9		Difference	
	2020	2019	**2020**	2019	**2020**	2019
Impairment loss charged to profit and loss account	**2,525**	3,155	**1,495**	1,911	**(1,030)**	(1,244)
Provisions required as per CBO norms / held as per IFRS 9	**20,092**	18,620	**17,843**	17,401	**(2,249)**	(1,219)
Gross NPL ratio	**26%**	24%	**26%**	24%	**-**	-
Net NPL ratio	**9%**	8%	**11%**	10%	**(2%)**	(1%)

Notes to the financial statements (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

Credit risk (continued)

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 Instalment finance debtors to any single counterparty as of 31 December 2020. An industry sector analysis of the Company's Instalment finance debtors (net) before taking into account collateral held is as follows:

	2020	2019
	RO	RO
Personal / car loans	**27,507,802**	33,685,324
Business loan		
- Services	**25,429,564**	29,935,786
- Construction contracts	**16,434,058**	20,350,696
- Construction equipment	**5,788,697**	7,314,924
- Manufacturing	**6,968,519**	3,150,373
- Trading	**1,777,946**	2,048,666
- Other	**1,409,401**	1,977,503
	85,315,987	98,463,272

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 Instalment finance debtors after deduction of unearned finance income is set out as below:

	2020	2019
	RO	RO
1 to 89 days	**5,476,697**	11,594,092

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

	2020	2019
	RO	RO
90 to 364 days	**5,342,301**	7,108,793
365 days and above	**21,964,048**	19,650,354
	27,306,349	26,759,147

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.

The Company limits its credit risk with regard to bank deposits by dealing with reputable banks.

Outbreak of Coronavirus (COVID-19)

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

27 Financial risk management (continued)

Credit risk (continued)

Outbreak of Coronavirus (COVID-19) (continued)

Government measures

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

Impact of COVID-19 on the Company

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

Additional IFRS 9 guidelines issued by the CBO stipulates:

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

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

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

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

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

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

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

27 Financial risk management (continued)

Credit risk (continued)

Outbreak of Coronavirus (COVID-19) (continued)

Impact on SICR

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

Impact on ECL

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

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

As on the reporting date the collective provision held by the Company through management overlays amounts to 21% of total impairment based on latest available PD term structure and macro-economic forecasts. This is in addition to the existing ECL provision considered on a conservative practice to mitigate any unforeseen impacts in the portfolio. The Company will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

PMAs and management overlays

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

Hence, based on regulatory and IASB's guidance, as a measure of prudence, wherever necessary, the Company has applied post model adjustments and management judgment overlays, while computing its ECL with an intention to collectively cover the following :

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

In determining the above, the management has considered the estimated GDP Growth Rate as per IMF published data.

Following are the scenario weightage considered by the Company:

- Scenario weightings for stage 1 & 2 of 70%, 20%, 10% for Base, Downside and Upside scenarios (31 December 2019: 70%, 20%, 10%);

Notes to the financial statements (continued)
For the year ended 31 December 2020

27 Financial risk management (continued)

Credit risk (continued)

Outbreak of Coronavirus (COVID-19) (continued)

Stage-wise analysis of customers benefiting from payment deferrals

The following table contains an analysis of the deferred amount of principal outstanding and accrued interest / profit pertinent to loans and advances of the customers who have been provided with such benefits, and the related ECL:

Loans and advances and acceptances

	Stage 1	Stage 2	Stage 3	Total
	RO	RO	RO	RO
Total exposure to customers benefiting from payment deferrals	15,983,270	5,125,597	1,208,533	22,317,400
Total ECL on exposure to customers benefiting from payment deferrals	378,023	28,990	145,502	552,515

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. As there is an exchange parity agreement between Oman and the United States of America, the exchange rates have remained stable over the years. Additionally, management maintains a "foreign currency reserve" to mitigate foreign exchange risk.

Interest rate risk

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

The interest rates on borrowings with banks are subject to change upon re-negotiation of the facilities which takes place on an annual basis in the case of overdrafts and at more frequent intervals in the case of short-term loans. The Company uses sensitivity analysis to analyse and measure interest rate on the variable cost of borrowings. Management estimates that the Company's interest costs are sensitive to the extent that change in 100 basis points in the average funding cost would change net interest income by RO 151,070 (2019 : RO 200,575). The Company's exposure to interest rate risk is analysed in the following tables.

Notes to the financial statements (continued)
For the year ended 31 December 2020

27 Financial risk management (continued)

Market risk (continued)

Interest rate risk (continued)

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

31 December 2020	Effective interest-rate in %	0 - 6 months	6 - 12 months	1 - 2 years	2 - 3 years	More than 3 years	Fixed rate or non interest sensitive	Total
		RO	RO	RO	RO	RO	RO	RO
Assets								
Investment securities	-	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	1.50	-	-	-	-	-	250,000	250,000
Instalment finance debtors	8.86	15,829,821	13,855,454	18,867,125	14,016,746	22,746,841	-	85,315,987
Other receivables	-	-	-	-	-	-	115,098	115,098
Cash and cash equivalents	0.25	136	-	-	-	-	707,458	707,594
Property and equipment and other assets	-	-	-	-	-	-	2,430,911	2,430,911
Total assets		15,829,957	13,855,454	18,867,125	14,016,746	22,746,841	4,057,617	89,373,740
Equity and liabilities								
Borrowings	4.75 - 6.75	25,594,482	5,997,229	5,083,338	-	-	-	36,675,049
Corporate deposits*		1,000,000	-	3,000,000	-	-	-	4,000,000
Creditors and other payables		-	-	-	-	-	3,199,975	3,199,975
Equity and taxation		-	-	-	-	-	45,498,716	45,498,716
Total equity and liabilities		26,594,482	5,997,229	8,083,338	-	-	48,698,691	89,373,740
Interest rate sensitivity gap		(10,764,525)	7,858,225	10,783,787	14,016,746	22,746,841	(44,641,074)	-
Cumulative gap		(10,764,525)	(2,906,300)	7,877,487	21,894,233	44,641,074	-	-

27 Financial risk management (continued)

Market risk (continued)

Interest rate risk (continued)

31 December 2019	Effective interest-rate in %	0 - 6 months RO	6 - 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Fixed rate or non interest sensitive RO	Total RO
Assets								
Investment securities	-	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	1.50	-	-	-	-	-	250,000	250,000
Instalment finance debtors	8.89	15,481,758	16,279,721	23,099,464	16,901,162	26,701,167	-	98,463,272
Other receivables	-	-	-	-	-	-	75,428	75,428
Cash and cash equivalents	0.25	201	-	-	-	-	601,271	601,472
Property and equipment and other assets	-	-	-	-	-	-	2,478,473	2,478,473
Total assets		15,481,959	16,279,721	23,099,464	16,901,162	26,701,167	3,959,322	102,422,795
Equity and liabilities								
Borrowings	4.5 - 5.25	33,069,137	9,364,729	2,576,389	-	-	-	45,010,255
Corporate deposits*		4,000,000	3,000,000	-	-	-	-	7,000,000
Creditors and other payables		-	-	-	-	-	5,263,777	5,263,777
Equity and taxation		-	-	-	-	-	45,148,763	45,148,763
Total equity and liabilities		37,069,137	12,364,729	2,576,389	-	-	50,412,540	102,422,795
Interest rate sensitivity gap		(21,587,178)	3,914,992	20,523,075	16,901,162	26,701,167	(46,453,218)	-
Cumulative gap		(21,587,178)	(17,672,186)	2,850,889	19,752,051	46,453,218	-	-

* *Corporate deposits are at market rates.*

27 Financial risk management (continued)

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. The Company has unutilised credit facilities of RO 6.53 million (2019 : RO 19.4 million).

Notes to the financial statements (continued)
For the year ended 31 December 2020

27 Financial risk management (continued)

Liquidity risk

31 December 2020	0 – 6 months RO	6 – 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Assets							
Investment securities	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	-	-	-	-	-	250,000	250,000
Instalment finance debtors	15,829,821	13,855,454	18,867,125	14,016,746	22,746,841	-	85,315,987
Other receivables and prepaid expenses	139,563	-	-	-	-	-	139,563
Cash and cash equivalents	707,594	-	-	-	-	-	707,594
Property and equipment and other assets	-	-	-	-	-	2,406,446	2,406,446
Total assets	16,676,978	13,855,454	18,867,125	14,016,746	22,746,841	3,210,596	89,373,740
Equity and liabilities							
Borrowings	25,594,482	5,997,229	5,083,338	-	-	-	36,675,049
Corporate deposits	1,000,000	-	3,000,000	-	-	-	4,000,000
Creditors and other payables	2,569,189	292,081	-	-	-	338,705	3,199,975
Equity and taxation	-	-	-	-	-	45,498,716	45,498,716
Total equity and liabilities	29,163,671	6,289,310	8,083,338	-	-	45,837,421	89,373,740
Gap in maturity (excluding off balance sheet items)	(12,486,693)	7,566,144	10,783,787	14,016,746	22,746,841	(42,626,825)	-
Cumulative gap in maturity	(12,486,693)	(4,920,549)	5,863,238	19,879,984	42,626,825	-	-
Assets off balance sheet							
Unearned finance income	2,976,530	2,615,397	3,678,761	2,106,816	1,567,936	-	12,945,440
Total assets (including off balance sheet items)	19,653,508	16,470,851	22,545,886	16,123,562	24,314,777	3,210,596	102,319,180

Notes to the financial statements (continued)
For the year ended 31 December 2020

27 Financial risk management (continued)

Liquidity risk (continued)

31 December 2020 (continued)	0 – 6 months RO	6 – 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Total assets (including off balance sheet items)	19,653,508	16,470,851	22,545,886	16,123,562	24,314,777	3,210,596	102,319,180
Liabilities off balance sheet							
Interest payable on loans	687,287	351,621	222,174	-	-	-	1,261,082
Contingent liabilities	509,591	-	-	-	-	-	509,591
Total equity and liabilities (including off balance sheet items)	30,360,549	6,640,931	8,305,512	-	-	45,837,421	91,144,413
Gap in maturity	(10,707,041)	9,829,920	14,240,374	16,123,562	24,314,777	(42,626,825)	11,174,767
Cumulative gap in maturity	(10,707,041)	(877,121)	13,363,253	29,486,815	53,801,592	11,174,767	

Notes to the financial statements (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

Liquidity risk (continued)

31 December 2019	0 – 6 months RO	6 – 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Assets							
Investment securities						554,150	554,150
Deposit with Central Bank of Oman						250,000	250,000
Instalment finance debtors	15,481,758	16,279,721	23,099,464	16,901,162	26,701,167	-	98,463,272
Other receivables and prepaid expenses	119,728	-	-	-	-	-	119,728
Cash and cash equivalents	601,472	-	-	-	-	-	601,472
Property and equipment and other assets	-	-	-	-	-	2,434,173	2,434,173
Total assets	16,202,958	16,279,721	23,099,464	16,901,162	26,701,167	3,238,323	102,422,795
Equity and liabilities							
Borrowings	33,069,137	9,364,729	2,576,389	-	-	-	45,010,255
Corporate deposits	4,000,000	3,000,000	-	-	-	-	7,000,000
Creditors and other payables	4,618,812	282,234	-	-	-	362,731	5,263,777
Equity and taxation	-	-	-	-	-	45,148,763	45,148,763
Total equity and liabilities	41,687,949	12,646,963	2,576,389	-	-	45,511,494	102,422,795
Gap in maturity (excluding off balance sheet items)	(25,484,991)	3,632,758	20,523,075	16,901,162	26,701,167	(42,273,171)	-
Cumulative gap in maturity	(25,484,991)	(21,852,233)	(1,329,158)	15,572,004	42,273,171	-	-
Assets off balance sheet							
Unearned finance income	3,540,345	3,154,253	4,410,266	2,493,011	2,019,667	-	15,617,542
Total assets (including off balance sheet items)	19,743,303	19,433,974	27,509,730	19,394,173	28,720,834	3,238,323	118,040,337

Notes to the financial statements (continued)

For the year ended 31 December 2020

27 Financial risk management (continued)

Liquidity risk (continued)

31 December 2019 (continued)	0 – 6 months RO	6 – 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Total assets (including off balance sheet items)	19,743,303	19,433,974	27,509,730	19,394,173	28,720,834	3,238,323	118,040,337
Liabilities off balance sheet							
Interest payable on loans	776,212	255,311	28,305	-	-	-	1,059,828
Contingent liabilities	292,500	147,675	-	-	-	-	440,175
Total equity and liabilities (including off balance sheet items)	42,756,661	13,049,949	2,604,694	-	-	45,511,494	103,922,798
Gap in maturity	(23,013,358)	6,384,025	24,905,036	19,394,173	28,720,834	(42,273,171)	14,117,539
Cumulative gap in maturity	(23,013,358)	(16,629,333)	8,275,703	27,669,876	56,390,710	14,117,539	

Notes to the financial statements (continued)
For the year ended 31 December 2020

27 Financial risk management (continued)

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 45.41 million as at 31 December 2020 (2019 : RO 44.64 million).

The Company is in compliance with the Central Bank of Oman's minimum capital requirement of RO 25 million.

Consistent with the regulations prevailing in the industry, the Company monitors capital on the basis of the gearing and leverage ratios. The gearing ratio is calculated as total borrowing (including 'current and non-current borrowings') divided by total equity as shown in the statement of financial position. Leverage ratio is calculated as total outside liabilities divided by net worth (excluding specific reserves and proposed cash dividend).

During 2020 and 2019, the Company's strategy was to maintain the gearing and leverage ratios within 5 times of the equity. The gearing and leverage ratios at 31 December 2020 and 2019 were as follows:

	2020	2019
	RO'000	RO'000
Total borrowings	**40,675**	52,010
Total outside liabilities	**43,875**	57,274
Total equity	**45,412**	44,636
Net worth (defined above)	**38,143**	37,445
Gearing ratio (times)	**0.90**	1.17
Leverage ratio (times)	**1.15**	1.57

28 Approval of financial statements

These financial statements were approved by the Board of directors and authorized for issue on 28th January 2021.