Annual Report 2016

United Finance Company SAOG

His Majesty

Sultan Qaboos bin Said

CONTENTS

Our Belief

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

Vision

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

Mission

To create "Growth for all" by

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

Enabling our employees to actualize

Partnering with our business associates for mutual growth

Being a responsible corporate citizen

Values

Commitment
Discipline
Teamwork
Timeliness
Empowerment

Board of Directors

Sulaiman Ahmed Al Hoqani
Chairman

Mohamed Abdulla Mohamed Al Khonji
Deputy Chairman

Hassan Ihsan Naseeb Al Nasib
Director

Ranga Gorur
Director

Hussam Hisham Omar Bostami
Director

Waseem Salah Qaraeen
Director

Awad Mohammed Faraj Bamkhalif
Director

Audit and Risk Committee

Waseem Salah Qaraeen
Chairman

Hassan Ihsan Naseeb Al Nasib
Member

Awad Mohammed Faraj Bamkhalif
Member

Credit Committee

Mohamed Abdulla Mohamed Al Khonji
Chairman

Sulaiman Ahmed Al Hoqani
Member

Ranga Gorur
Member

Hussam Hisham Omar Bostami
Member

Nomination and Remuneration Committee

Sulaiman Ahmed Al Hoqani
Chairman

Hussam Hisham Omar Bostami
Member

Awad Mohammed Faraj Bamkhalif
Member

MANAGEMENT TEAM

D Stanley
Deputy Chief Executive Officer

Mansoor Mubarak Al Amri
Chief Executive Officer

K T Ramasamy
AGM - Finance & IT

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

Oman Arab Bank

Bank of Baroda

Qatar National Bank

Ahli Bank

Ahli United Bank, Bahrain

Statutory Auditors

Ernst & Young

Board of Directors' Report

Mohammed 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 2016.

The Economic Environment

During 2016 the Oman economy faced many macroeconomic challenges as oil prices remained below the budgeted level during most part of the year. The government displayed maturity and economic wisdom in adopting several measures to curtail unproductive expenditure to contain the budget deficit. Given the contraction in oil revenue, the government raised funds from the domestic and international markets to pursue key ongoing infrastructure and developmental projects to maintain economic momentum. These measures aided the economy to grow modestly despite the impact of the drop in oil revenue. The market witnessed a general slowness in economic activity due to which business levels were down, especially during the second half of the year. The government's thrust to diversify into non-oil segments to augment its revenue sources is gaining traction, with focus on developing tourism, healthcare, transport, logistics and aviation sectors. These initiatives are aimed at balancing the sources of revenue across diversified segments to weather the impact of decline in oil revenue, the results of which would be seen over the next few years.

2016 was a tough year for the Banking Services industry. The market witnessed a decline in the demand for commercial vehicles and equipment, in lieu of the limited opportunities for deployment, coupled with the drop in hiring rates and delayed settlement of dues by contractors. The demand for private vehicles also registered a decline as a result of reduction in the disposable income due to trimming of allowances in the public and private sectors. These factors affected the overall market potential for expansion of credit and increased competition amongst peers. Banks continued to penetrate into vehicle financing and SME funding segments, thus narrowing down the market scope of FLCs and triggering severe competition and a decline in lending rates. The tightening of liquidity pushed up the interest rates on borrowings resulting in contraction of net interest income. The delayed payment cycle witnessed across the market resulted in strained cash flow to borrowers and their inability to meet their loan obligations on time. This development triggered an increase in delinquencies which is likely to prevail in the near term, till the regular payment cycle is restored.

The year under review

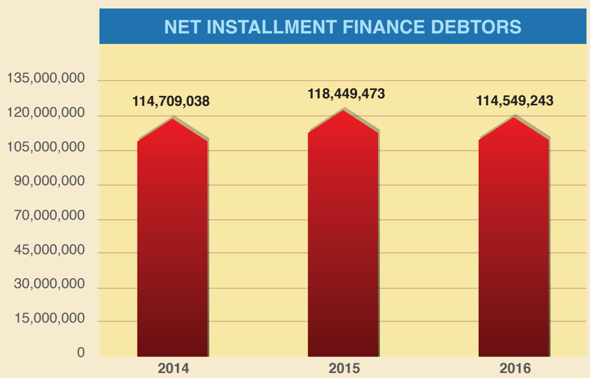
Your company registered a modest performance during 2016 given the subdued and adverse market conditions. The company recorded a net profit of RO 4.50M for the year 2016 as against RO 5.24M for the previous year. The decline in profitability is mainly attributed to the increase in interest cost and incremental provisions on impaired assets. The loan book stood at RO 114.55M as at 31st Dec. 2016 as against RO 118.45M as at 31st Dec. 2015. The nominal decrease in the loan portfolio is attributed to the subdued market and foreclosure of loans. Our concerted efforts on the recovery front helped in restraining impaired assets at RO 11.56M as at 31st Dec. 2016 as against RO 11.0M as at 31st Dec. 2015.

The company holds a cumulative provision of RO 4.5M as at Dec. 2016 and a Special Reserve of RO 2.37M to guard against delinquencies from unforeseen quarters. The Management would pursue appropriate recovery measures to improve collection efficiency and restrain the level of impaired loans despite the tough challenges envisaged in the year ahead.

Your company maintained a comfortable funds position all through 2016. Banks continued to repose confidence and have been supportive by renewing / enhancing the credit facilities extended to augment the company's growth plans. Some of the banks have expressed their willingness to extend additional credit facilities to meet the growth plans of the company.

Dividend

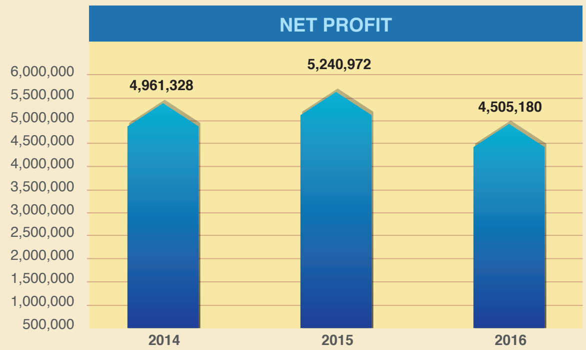
The Board of Directors recommends a cash dividend of 8% and Stock dividend of 7% from the distributable surplus of the company, subject to approval of the shareholders at the Annual General Meeting.



Looking Ahead

The Sultanate's Fiscal Budget for the year 2017 has maintained a similar outlay for developmental activities as in the previous year. The budget aims at reinforcing confidence and maintaining a steady pace of economic activity by attempting to insulate the economy from the prevailing uncertain market conditions. It is envisaged that the government would pursue ongoing projects and prioritize and channelize investment for developing the requisite infrastructure to achieve its long term diversification goals. The expansion of airports and seaports, developing road network and construction of industrial infrastructure to cater to the needs of diversion into non-oil segments are likely to be the areas of focus in the year ahead.

Though the budget focuses on austerity measures and restraining public expenditure, it lays emphasis on investment in the development of healthcare, education and housing sectors to improve the level of services provided to the community. The government also proposes to continue to divest its stake in public utility companies to encourage private sector participation and investment to supplement the government's initiatives in the development of the economy. These measures are aimed at shielding the economy from the oil shock and providing reasonable opportunities for business to foster growth in the ensuing year.



UFC would continue its pursuit to optimize the market potential to grow its book size. The company would adopt a selective approach to grow its loan portfolio with emphasis on maintaining asset quality. The company would pursue appropriate measures and continue its focus on maintaining a balanced loan portfolio to mitigate risk. As regards funding, the company has secured adequate credit limits with banks and maintains sufficient unutilized credit limits to meet its business needs. The company's bankers have been supportive all through and are willing to extend additional credit limits to augment the company's business plans. As the business potential is expected to be modest, the market is likely to be very competitive with pressure on lending rates. Interest rates on borrowings are expected to remain high in lieu of the tight liquidity in the market and have a corresponding impact on net interest income. Our collection team would increase their efforts on reduction of impaired loans and arrest the fresh incidence of impaired loans. However, tight liquidity and the delays in settlement of dues by counter parties is a major factor that poses a challenge to restrain the level of impaired loans. The company would explore avenues for cost reduction and optimum utilization of resources to improve operational efficiency and profitability.

Human Resources

UFC has always laid emphasis on maintaining the prescribed Omanisation percentage by focusing on recruiting and nurturing Omani youth. The company adopts a practice of providing continuously training to its employees, to Omani staff in particular, to impart the required knowledge and improve their competency to grow and realize their career goals. New recruits are provided on the job training to equip them with the required skill sets to discharge the tasks assigned to them efficiently. The company provides an ideal working environment to encourage Omani staff to grow and achieve their aspirations. The company is compliant with the prescribed Omanisation percentage.

Corporate Governance

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

Corporate Social Responsibility

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

Demise of erstwhile Chairman

It is with profound grief that I note here that our erstwhile Chairman, Shaikh Sulaiman Ahmed Al Hoqani passed away on 9th January 2017. The Board of Directors and the Management acknowledge and place on record his able guidance and valuable support during his tenure as the Chairman of the company.

Acknowledgement

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

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

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

May God bless all of us.

Mohammed Abdulla Al Khonji
Chairman

Management Discussion and Analysis for the year 2016

Mansoor Mubarak Al Amri
Chief Executive Officer

Economic Overview

2016 was a turbulent year for the Oman economy. Oil prices remained low over a predominant part of the year forcing the government to adopt austerity measures and prioritize spending in order to restrain the deficit. However, despite the drop in oil revenue, the government pursued its spending on key developmental projects, albeit at a subdued pace, to shield the economy from the prevailing uncertainties in the regional markets and maintain economic momentum.

The government pursued steps to develop infrastructure to cater to the needs of its long term diversification plans. The focus was mainly on development of road network, expansion of airports and sea ports, establishment of free trade zones and industrial estates and construction of storage facilities to meet the demands of transport, logistics and tourism segments. These measures were aimed at diversifying the sources of revenue and reduce the dependence of oil revenue in the long run. Investment in health, education and housing sectors were also taken up to enhance the level of basic services to the community. The government also went ahead with its divestment plans and offloaded its stake in some public utility undertakings to foster private sector participation in the development process. The government also took bold steps to raise funds from the international markets to fund key projects to maintain the pace of economic activity and provide opportunities for growth. Various measures to foster the growth of SME's and encourage self-employment were also pursued.

Year 2016 witnessed tightening of liquidity in the local money market and interest rates moved up sharply. While some banks continued to extend fresh loans at higher interest rates, others opted to conserve funds and were hesitant to extend loans in lieu of the uncertain market conditions. This triggered the demand for corporate deposits resulting in an upward movement of interest rates. The government's withdrawal of deposits from banks coupled with the issue of long term bonds to fund its requirements led to further tightening of liquidity. In addition, the market was witness to inordinate delays in the settlement of dues by counter parties resulting in the strained cash flow business entities and their inability to meet their loan obligations in time.

The government's resolve to proceed with the implementation of ongoing projects coupled with the additional planned spending for new need based socio economic projects in the State Budget for 2017 is expected to mitigate the risks to the Oman economy from the low oil prices and achieve some growth.

Industry Overview

2016 was a challenging year for FLCs. The market remained subdued in view of the restrained spending by the government against the back drop of the steep decline in oil revenue. The demand for equipment and commercial assets witnessed a decline due to dearth of avenues for deployment. The trimming of allowances in the public and private sectors impacted the demand for private vehicles. Further, the penetration of banks into SME and vehicle financing segment shrunk the market scope of FLCs and provided limited opportunities to expand credit.

FLCs had to optimize the available business potential, resulting in intense competition and finer lending rates. The tight money market conditions triggered a stiff increase in borrowing cost. This dual impact of finer lending rates coupled with increased borrowing cost resulted in thinning of net interest margins. The delayed payment cycle prevalent in the market severely impacted the cash flow of business entities forcing them to delay / default on their loan obligations triggering an increase in the incidence of delinquencies.

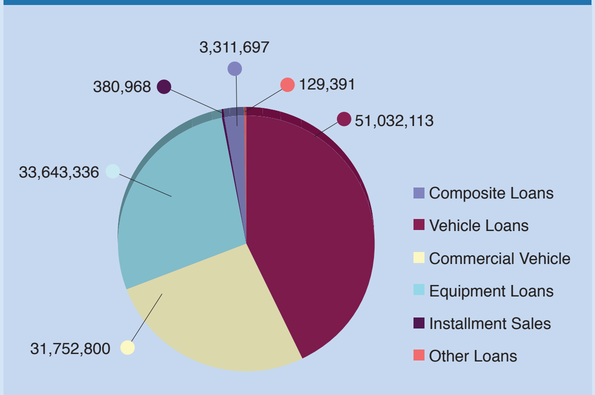
Opportunities & Threats

The budget for 2017 has earmarked almost a similar outlay as allocated in the previous year for various sectors. As the current oil price is above the budgeted level, this should encourage the government to go ahead with the implementation of ongoing and proposed key developmental projects as envisaged. The government plans to raise the required funds from the international market to fund the deficit in the budget. The budget envisages reasonable investment in development of the healthcare, education and infrastructure development to cater to the economic and civic needs of the country. The government is expected to continue its thrust in channelizing resources to augment its long term diversification program into non-oil segments through investment in development of infrastructure facilities to promote international trade, tourism, logistics to gradually reduce the dependence on oil revenue and achieve sustained growth.

The government has adopted bold initiatives aimed at insulating the economy from the uncertainties looming against the backdrop of low oil prices to maintain a steady pace of economic activity and facilitate opportunities to foster growth. We believe that these initiatives would give a boost to economic momentum, revive business prospects and provide avenues for FLCs to expand credit and grow their loan book.

Despite the current oil price being above the budgeted level, there is an element of skepticism as to its sustainability in the near term and beyond. Though several predictions indicate that oil price is likely to rise and stabilize over a period of time, any setback in this would force the government to realign its planned spending that could result in a slowdown / postponement in the implementation of certain projects. This would restrain economic activity and impact prospects for expansion of business. Dearth of business opportunities would trigger delays in the settlement of contractual dues by counter parties resulting in strained cash flows and forcing borrowers to delay / default on their loan commitments resulting in an increase in the incidence of delinquencies.

PRODUCT WISE LOAN PORTFOLIO



The penetration of banks into funding of SMEs and financing of private vehicles coupled with in-house funding by vehicle dealers could trigger severe competition resulting in a reduction in the market share of FLCs and pressure on lending rates and net interest margins. There is an air of uncertainty over market liquidity and a further tightening could push up borrowing cost. Any changes in regulations governing the FLCs could also have an impact on their performance.

Analysis of Segment & Product-wise performance

UFC extends finance to both the retail and corporate segments with the objective of maintaining a rational portfolio mix. As at December 2016 its corporate exposure stood at 74% with the balance 26% representing retail exposure. Loans extended for assets used by the borrowers for income generation are classified under corporate segment, while assets used for personal purpose are classified under retail segment. The Management evaluates the loan portfolio of the company regularly, based on the repayment track record, income spreads, value at risk and incidence of delinquencies, and modifies the lending norms to reduce credit risk to improve asset quality. In addition, the credit norms of the company are periodically adapted based on market information and risk review reports on the loan portfolio to guard against delinquencies. All loans extended by the company are secured by the assets financed and additional security by way of assignment of receivables, collateral assets, mortgage of property, personal guarantees of borrowers and counter parties are obtained on a case-to-case basis to mitigate risk from unexpected developments.

Outlook

In view of the uncertain market conditions, UFC would adopt a cautious approach to grow its loan book, albeit at a modest pace, by optimizing the market opportunities. The company lays emphasis on improving asset quality through objective screening of loan proposals and tightening its collection mechanism to mitigate the incidence of delinquencies. The company would pursue its objective of mitigating risk through diversifying its loan portfolio and reducing credit concentration and focus on maintaining a balanced portfolio mix. The Management would continue its concerted efforts and adopt appropriate steps to improve collection efficiency and restrain the level of impaired loans. Under the guidance of the Board of Directors, the Management team and dedicated staff of the company would contribute their best efforts to improve operational efficiency, achieve better performance and reward stakeholders in the ensuing year.

Human Resources

UFC has always laid emphasis on employing aspiring young Omanis and nurturing them to achieve their career aspirations. UFC focuses on imparting training to groom its staff to efficiently handle their job responsibilities. The company continuously assesses the training needs of its staff and conducts regular training programs to enhance their knowledge and skill sets and equip them to ascend to higher positions and scope for a sustainable future. The company maintained the prescribed Omanisation all through the year.

Risks & Concerns

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

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

Credit Risk

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

Interest Rate Risk

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

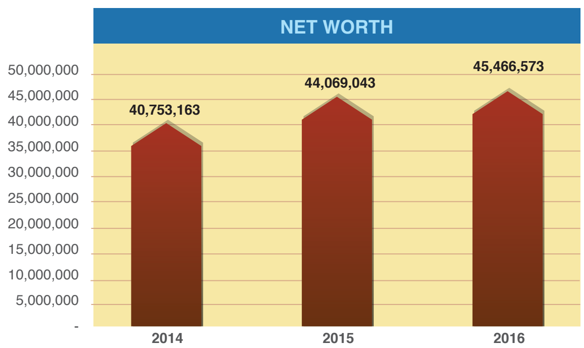
Liquidity Risk

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

Internal control systems & their adequacy

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

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



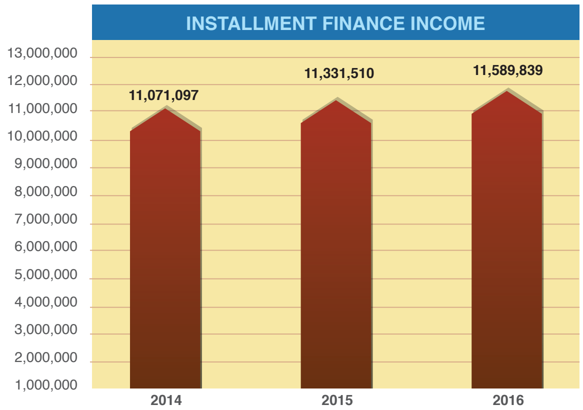
Information Technology, Disaster Recovery and Business Continuity Plan

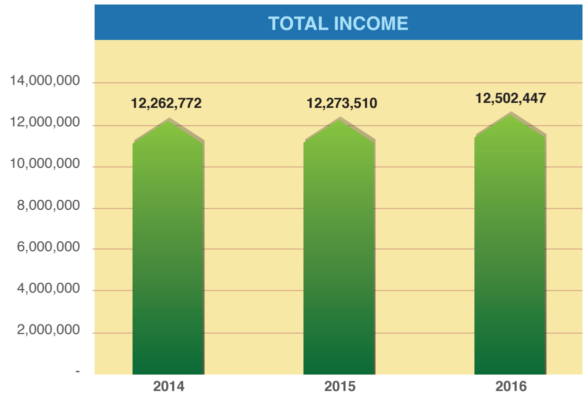
UFC has a team of experienced and competent Information Technology professionals. The company lays emphasis on regularly reviewing and upgrading its IT infrastructure to cater to the needs of the changing business environment. The company uses state-of-the-art banking software, which is in use by many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

Discussion on financial & operational performance

UFC performed satisfactorily during 2016 despite the subdued and volatile market conditions that prevailed through the year against the backdrop of low oil prices. The company pursued a cautious approach in lieu of the uncertainty in the market. The company disbursed fresh loans of RO 46.14m during 2016. The loan portfolio as at 31st December 2016 stood at RO 114.55m as against RO 118.45m at the end of the previous year. The company registered a net profit of RO 4.5m for the year 2016. Impaired loans as at December 2016 were RO 11.56m. Concerted efforts on the recovery front aided in controlling the level of impaired loans. The Board has recommended a cash dividend of 8% and stock dividend of 7% for 2016 subject to approval of the shareholders at the Annual General Meeting.

The company maintained a comfortable fund position throughout the year. Banks reposed confidence in the company and have expressed their willingness to extend additional credit facilities to meet its business needs. During the year some banks renewed the credit facilities extended by them, while others sanctioned additional credit facilities. The market was very competitive with banks penetrating into SME funding and vehicle financing coupled with in-house





financing by major vehicle dealers, thus reducing the market share of finance companies. This resulted in a decline in lending rates. The tightening of liquidity pushed up borrowing cost significantly which affected net interest margins.

The company provided RO 935K as additional provision during the year. The company is taking various steps to improve collection performance and control the level of impaired loans in the ensuing year despite the looming uncertainties.

Company's Growth at a Glance

			(RO '000)
Particulars	2014	2015	**2016**
Total Assets	119,159	123,105	**119,626**
Share Capital	27,501	31,076	**32,630**
Net Worth	40,753	44,069	**45,467**
Finance Debtors	114,709	118,449	**114,549**
Total Borrowings	70,684	70,330	**69,558**
Gross Income	12,262	12,273	**12,502**
Net Finance Income	8,509	9,242	**8,961**
Net Profit	4,961	5,241	**4,505**

EY
Building a better working world

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

REPORT OF FACTUAL FINDING

TO THE SHAREHOLDERS OF THE UNITED FINANCE COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of The United Finance Company SAOG (the "Company") as at and for the year ended 31 December 2016 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarised as follows:

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

2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2016. 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 The United Finance Company SAOG to be included in its annual report for the year ended 31 December 2016 and does not extend to any financial statements of The United Finance Company SAOG, taken as a whole.

Ernst & Young LLC

Muscat
13 March 2017

Report on Corporate Governance

I. Company's philosophy

United Finance Company SAOG (the Company) has adopted the Corporate Governance framework introduced vide CBO circular no. BM/932 dated 04.02.2002, CMA regulations vide CMA circular no. 11/2002 duly amended by circular No 1/2003 and CMA Administrative Decision No.5/2007 as part of its Disclosure Policy, 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 managerial level and upwards, specifying their roles, responsibilities, powers and remuneration.
k. Evaluating the function of sub committees, Chief Executive Officer and key employees.
l. Approving interim and annual financial statements.
m. Reporting to the shareholders in annual report about the going concern status of the company.
n. Approval of a proper delegation of power to executives covering entire range of functions like administrative powers, financial powers and personnel powers…etc.
o. Prevent dealing in the shares of the company on the basis of undeclared or unrevealed information, by those who are, by virtue of their position, aware of such information.

2. Role and Responsibilities of the Management:

a. Rendering assistance in policy formulation and periodic review to the Board.
b. Responsibility for implementation: Management is responsible for implementation of banking laws, regulations and circulars issued by Central Bank of Oman and other regulatory authorities within the Sultanate of Oman.
c. Management is also responsible for implementation of Board approved policies by putting in place procedures, internal controls, risks and performance measurement methodologies, management information systems and reports to the Board.
d. Responsibility for transmitting correct and timely signals.
e. Acting professionally and expertise manifest.
f. Nurturing proper and ethical 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
Non-independent, Non-Executive Directors	1. Shaikh Sulaiman Ahmed Al Hoqani (Chairman) * 2. Mr. Awad Mohammed Faraj Bamkhalif#
Independent, Non-Executive Directors	3. Mr. Mohamed Abdulla Al Khonji (Deputy Chairman) 4. Mr. Hassan Ihsan Naseeb Al Nasib 5. Mr. Ranga Gorur 6. Mr. Hussam Hisham Omar Bostami 7. Mr. Waseem Salah Qaraeen

 # Mr. Awad Mohammed Faraj Bamkhalif was elected as a director on the board on 28/03/2016

** Shaikh Sulaiman Ahmed Al Hoqani, Chairman passed away on 09/01/2017.*

DIRECTORS' PROFILE

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

2 **Mr. 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 Deputy Chairman of the Board and Chairman of the Credit Committee in UFC, he is the Chairman of the Board and Executive Committee in Oman Hotels & Tourism Company SAOG, board member & Chairman of Executive Committee in The Financial Corporation Co. SAOG and board member and a member of the Audit Committee in Takaful Oman Insurance SAOG. He is also the Deputy Chairman of the Board & Chairman of Executive Committee, Al Khonji Group, Chairman of Al Khonji Holding LLC. and Chairman & CEO of Aqar – Oman. In the past, he has been on the boards of several listed companies and banks like Bank Sohar SAOG, Oman Investment & Finance Co. SAOG, National Aluminium Products Co. SAOG, Oman National Electric Co. SAOG, Oman Medical Projects Co. SAOG, Taageer Finance Co. SAOG, Al Anwar Holdings SAOG, etc. He was also a member of the Oman – India Committee and Oman – Lebanon Committee at the OCCI.

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

4 **Mr. Ranga Gorur** is holding the position of Chief Finance Officer of Oman Holdings International Co. SAOC. He is a Fellow Member of the Institute of Chartered Accountants of India as also CPA Australia, with over 39 years of professional experience. Besides being a board member and a member of the Credit Committee of UFC, he is also a board member & Chairman of the Audit Committee in Computer Stationery Industry SAOG. He is also a board member of Al Ahlia Insurance Co. SAOC, member of their Investment Committee and the Chairman of their Audit Committee.

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

6 **Mr. Waseem Salah Qaraeen**, holds a Degree in Bachelor of Economics, Administration, Sciences (Accounting) from the Applied Science University, Amman – Jordan. He also holds a master's certificate (MBA) from the Bedfordshire University in UK. He has worked as Internal Auditor in Global Financial Investment Holding Co. SAOG and as an Accountant in United Arab Investments, Amman, Jordan. Presently he is holding the position of Deputy General Manager – Investment Services in Global Financial Securities Services LLC. Besides being a board member and Chairman of the Audit & Risk Management Committee in UFC, he is also on the boards of Oman Education & Training Investment Co. SAOG, Al Batinah Development & Investment Holding Co. SAOG, Al Batinah Hotels Co. SAOG, and Global Omani Development & Investment Co. SAOC.

7 **Mr. Awad Mohammed Faraj Bamkhalif#**, a Post Graduate in Accounting and Finance from Egypt and UK, has with him over 32 years of experience in Finance and Investment field. He currently serves on Majan Capital

Fund Investors' Committee on behalf of Oman & Emirates Investment Holding Co. SAOG, where he is holding the position of Chief Executive Officer for over 18 years. Mr. Awad is a board member of UFC, as also a member of the Audit & Risk Management Committee and the Nomination & Remuneration Committee in UFC. Mr.Awad also holds directorship in Financial Corporation Co. SAOG (FINCORP), Oman Hotels & Tourism Company SAOG, Oman Fiber Optic Co. SAOG. He is the Deputy Chairman of the Board in Oman Hotels & Tourism Company SAOG. Before joining Oman & Emirates Investment Holding Co. SAOG, Mr. Awad was the General Manager of Oman Aviation Services Co. SAOG / Oman Air and, prior to that, he was holding the position of Deputy Financial Controller of Port Services Corporation, Sultanate of Oman. He has been the Proprietor of **Oman Audit Bureau** for over 25 years, which is currently known as **Baker Tilly MKM (Oman) LLC**. where he is the Executive Resident Partner.

\# *Mr. Awad Mohammed Faraj Bamkhalif was elected as a director on the board on 28/03/2016*

* *Shaikh Sulaiman Ahmed Al Hoqani, Chairman, passed away on 9th January 2017.*

Details of attendance of Board Members for Board Meetings during 2016

	Board Member	Board Meeting Dates					
		26/01/2016	28/03/2016	21/04/2016	27/07/2016	25/10/2016	19/12/2016
1	Shaikh Sulaiman Ahmed Al Hoqani*	YES	YES	YES	YES	YES	-
2	Mr. Mohamed Abdulla Al Khonji	YES	YES	YES	YES	YES	YES
3	Mr. Hassan Ihsan Naseeb Al Nasib	YES	YES	YES	YES	YES	YES
4	Mr. Ranga Gorur	YES	YES	YES	YES	YES	YES
5	Mr. Hussam Hisham Omar Bostami	YES	YES	YES	YES	YES	YES
6	Mr. Waseem Salah Qaraeen	YES	YES	YES	YES	YES	YES
7	Mr. Awad Mohammed Faraj Bamkhalif#	-	YES	YES	YES	YES	YES

\# *Mr. Awad Mohammed Faraj Bamkhalif was elected as a director on the board on 28/03/2016*

* *Shaikh Sulaiman Ahmed Al Hoqani, Chairman passed away on 09/01/2017.*

Details of attendance of Board members for AGM during 2016

	Board Member	AGM 28/03/2016
1	Shaikh Sulaiman Ahmed Al Hoqani, Chairman*	YES
2	Mr. Mohamed Abdulla Al Khonji	YES
3	Mr. Hassan Ihsan Naseeb Al Nasib	YES
4	Mr. Ranga Gorur	YES
5	Mr. Hussam Hisham Omar Bostami	YES
6	Mr. Waseem Salah Qaraeen	YES

* *Shaikh Sulaiman Ahmed Al Hoqani, Chairman passed away on 09/01/2017.*

Details of EGMs:

The company convened an EGM on 28.03.2016 and approved certain amendments to the Articles of Association of the company.

Details of Membership of Other Boards:

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

\# *Mr. Awad Mohammed Faraj Bamkhalif was elected as a director on the board on 28/03/2016*

* *Shaikh Sulaiman Ahmed Al Hoqani, Chairman passed away on 09/01/2017.*

III Board Committees:

1. Brief description of terms of reference:

A. Audit & Risk Management Committee

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

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

B. Credit Committee

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

C. Nomination & Remuneration Committee

- 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.

2 Details of Audit & Risk Management, Credit and Nomination & Remuneration Committees' activities during the year:

A. Details of attendance of Board Members for Audit & Risk Management Committee Meetings during 2016

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. Waseem Salah Qaraeen	Mohamed Abdulla Al Khonji	Mr. Hassan Ihsan Naseeb Al Nasib	Mr.Awad Mohammed Faraj Bamkhalif #
26.01.16	YES	YES	YES	-
21.04.16	YES	-	YES	YES
27.07.16	YES	-	YES	YES
25.10.16	YES	-	YES	YES

 # Mr. Awad Mohammed Faraj Bamkhalif was elected as a director on the board on 28/03/2016

B. Details of attendance of Board Members for Credit Committee Meetings during 2016

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	Shaikh Sulaiman Ahmed Al Hoqani *	Mr.Ranga Gorur	Mr.Hussam Hisham Omar Bostami
26.01.16	-	YES	YES	YES
21.04.16	YES	YES	YES	YES
27.07.16	-	YES	YES	YES
25.10.16	YES	-	YES	YES

** Shaikh Sulaiman Ahmed Al Hoqani, Chairman passed away on 09/01/2017.*

C. Details of attendance of Board Members for Nomination and Remuneration Committee Meetings during 2016

Date	Name of the Member and their representation in the Committee		
	Chairman of the committee	Member of the committee	Member of the committee
	Shaikh Sulaiman Ahmed Al Hoqani*	Mr.Hussam Hisham Omar Bostami	Mr. Awad Mohammed Faraj Bamkhalif#
19.12.16	-	YES	YES

 # Mr. Awad Mohammed Faraj Bamkhalif was elected as a director on the board on 28/03/2016
** Shaikh Sulaiman Ahmed Al Hoqani, Chairman passed away on 09/01/2017.*

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 54,500 as sitting fees and a total amount of RO 66,657 has been provided for as board remuneration.

S. No.	Board Members	Sitting Fees Paid R.O.	Proposed Remuneration R.O.
1	Shaikh Sulaiman Ahmed Al Hoqani, Chairman*	7,500	13,657
2	Mr. Mohamed Abdulla Al Khonji	7,500	10,500
3	Mr. Hassan Ihsan Naseeb Al Nasib	8,000	8,500
4	Mr. Ranga Gorur	8,000	8,500
5	Mr. Hussam Hisham Omar Bostami	8,500	8,500
6	Mr. Waseem Salah Qaraeen	8,000	8,500
7	Mr. Awad Mohammed Faraj Bamkhalif#	7,000	8,500
		54,500	**66,657**

 # Mr. Awad Mohammed Faraj Bamkhalif was elected as a director on the board on 28/03/2016
** Shaikh Sulaiman Ahmed Al Hoqani, Chairman passed away on 09/01/2017 and the proposed board remuneration of RO 13,657 due to him will be paid to his legal heirs, after approval by the AGM.*

B. During the year the company incurred an annual cost, including variable component of RO 515,668 in respect of its 5 top officials.

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

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

VI Details of non-compliance by the company:

Details of non-compliance by the company:

The company had no occasion to attract penalties or strictures from Muscat Securities Market and Capital Market Authority during the last 3 years. During 2013 and 2014 the company had no occasion to attract penalties from Central Bank of Oman. The company paid RO 2,500/- in 2015 and RO.4,000/- in 2016 as penalty to the Central Bank of Oman.

VII Means of communication with the shareholders and investors:

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

VIII A. Market Price Data:

2016 / Month	High R.O.	Low R.O.	No. of days traded	Financial Sector MSM Index (Monthly Average)
January	0.130	0.102	19	5,104.065
February	0.131	0.118	19	5,390.210
March	0.162	0.130	21	5,474.600
April	0.137	0.128	9	5,945.385
May	0.155	0.134	10	5,827.865
June	0.155	0.139	3	5,781.075
July	0.151	0.150	7	5,850.695
August	0.150	0.150	1	5,755.930
September	0.162	0.150	9	5,734.805
October	0.157	0.157	2	5,482.430
November	0.156	0.155	1	5,483.025
December	0.162	0.150	5	5,784.160

Shares are quoted based on RO 0.100 as par value

B. Distribution of shareholding:

SHAREHOLDERS (5% and ABOVE) AS ON 31.12.2016					
Sl. No.	**Name**	**Nationality**	**Class of Equity**	**No. of Shares**	**%**
1	Oman Hotels &Tourism Company SAOG	Omani	Ordinary	109,565,228	33.578
2	First National L.L.C.	Omani	Ordinary	43,015,169	13.183
3	Global Financial Investment Holding Company	Omani	Ordinary	37,083,515	11.365
4	Shaikh Sulaiman Ahmed Said Al Hoqani	Omani	Ordinary	32,478,067	9.953
5	Al Saud Company Ltd - Ubar Financial Investment	Omani	Ordinary	25,505,122	7.816
6	Al Ghantaq Golden LLC.	Omani	Ordinary	21,470,955	6.580
7	Oman Holding International Company SAOC	Omani	Ordinary	18,440,845	5.651
	Total			**287,558,901**	**88.126**
	Others			**38,744,286**	**11.874**
	Grand Total			**326,303,187**	**100.000**

IX Professional profile of E&Y: Statutory Auditor

Profile of Statutory Auditors

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 6,500 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,400 partners and approximately 100,000 professionals. Globally, EY operates in more than 150 countries and employs 231,000 professionals in 700+ offices. Please visit ey.com for more information about EY.

X Details of audit & other fees for the year 2016

Audit & Other Fees	RO.20,400

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.

XII Change of Chairman

The erstwhile Chairman, Shaikh Sulaiman Ahmed Al Hoqani passed away on 9th January 2017 and Mr.Mohamed Abdulla Al Khonji was appointed as the Chairman of the Board at the board meeting held on 29th January 2017.

Mohamed Abdulla Al Khonji
Chairman

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PR No. HMH/15/2015; HMA/9/2015

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 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

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

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
UNITED FINANCE COMPANY SAOG (CONTINUED)

Key audit matters (continued)

Impairment of installment finance debtors

Impairment of installment finance debtors (loans and receivables) is a highly subjective area due to the level of judgement applied by management in determining the extent of credit losses related to such loans and receivables. The judgements applied by the management in determining the level of impairment for loans and receivables include the identification of events that could possibly result in an impairment, an appropriate valuation of the related collateral, the assessment of customers that are likely to default, and the future cash flows relating to loans and receivables.

Due to the material nature of loans and receivables and the related estimation uncertainties involved, including the consideration of prudential requirements, this is considered a key audit matter. The basis of the Company's impairment provision policy is presented in the accounting policies section and in Note 2.9 to the financial statements. Attention is also drawn to the critical accounting estimates and judgements, disclosures of loans and receivables and the credit risk management set out in notes 3, 8(c) and 27, respectively to the financial statements.

Our audit procedures included the assessment of controls over the granting, booking and monitoring processes of loans and receivables, and the specific and collective impairment provisioning process, including consideration of prudential requirements, to validate the operating effectiveness of the key controls in place, which identify the impaired loans and receivables and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively.

In addition to testing the key controls, we selected samples of loans and receivables outstanding as at the reporting date and critically assessed the criteria for determining whether an impairment event had occurred that would require an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Company's management. Our selected samples also included non-performing loans and receivables where we assessed management's forecast of recoverable cash flows, the valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing loans and receivables, we assessed whether the borrowers exhibited an increased default risk that may affect meeting their scheduled repayment obligations.

For collective impairment provisions, we obtained an understanding of the methodology used by the Company to determine the collective provisions, assessed the underlying assumptions and sufficiency of the data used by management.

We also assessed whether the financial statement disclosures appropriately reflect the requirements of IFRS.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED FINANCE COMPANY SAOG (CONTINUED)

Other information included in the Company's 2016 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Company's 2016 Annual Report, other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the 2016 Annual Report after the date of our auditor's report:

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

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

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

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

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

Those charged with governance and management are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority (the CMA") of the Sultanate of Oman, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

From the matter communicated with those charged with governance, we determine the matter that was of most significance in the audit of the financial statements of the current period and is therefore the key audit matter. We describe this 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
UNITED FINANCE COMPANY SAOG (CONTINUED)

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Philip Stanton
Muscat
13 March 2017

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

2015 US$	2016 US$		Notes	2016 RO	2015 RO
29,432,493	**30,103,478**	Installment finance income		**11,589,839**	11,331,510
(5,426,932)	**(6,827,719)**	Interest expense		**(2,628,672)**	(2,089,369)
24,005,561	**23,275,759**	**Net installment finance income**		**8,961,167**	9,242,141
2,446,753	**2,370,410**	Other income	4	**912,608**	942,000
(9,473,566)	**(9,145,236)**	Other expenses	5	**(3,520,916)**	(3,647,323)
(259,361)	**(315,990)**	Depreciation	7	**(121,656)**	(99,854)
(1,260,792)	**(2,430,169)**	Impairment on installment finance debtors - net	8	**(935,615)**	(485,405)
15,458,595	**13,754,774**	**Profit before tax**		**5,295,588**	5,951,559
(1,845,681)	**(2,053,008)**	Income tax expense	6	**(790,408)**	(710,587)
13,612,914	**11,701,766**	**Profit and total comprehensive income for the year**		**4,505,180**	5,240,972
0.045	**0.036**	**Basic and diluted earnings per share**	21	**0.014**	0.017

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2016

2015 US$	2016 US$		Notes	2016 RO	2015 RO
		ASSETS			
6,776,094	**6,782,899**	Property and equipment	7	**2,611,416**	2,608,796
1,439,351	**1,439,351**	Investment securities	10	**554,150**	554,150
545,454	**649,351**	Deposit with the Central Bank of Oman	11	**250,000**	210,000
307,660,969	**297,530,501**	Installment finance debtors	8	**114,549,243**	118,449,473
15,275	**15,275**	Deferred tax asset	6	**5,881**	5,881
314,332	**263,145**	Other receivables and prepaid expenses	9	**101,311**	121,018
3,002,969	**4,036,644**	Cash and cash equivalents	12	**1,554,108**	1,156,143
319,754,444	**310,717,166**	**Total assets**		**119,626,109**	123,105,461
		EQUITY AND LIABILITIES			
		Equity			
80,718,166	**84,754,073**	Share capital	13	**32,630,318**	31,076,494
1,372,475	**1,372,475**	Share premium reserve	14	**528,403**	528,403
10,720,063	**11,890,239**	Legal reserve	15(a)	**4,577,742**	4,127,224
6,153,218	**6,153,218**	Special reserve	15(b)	**2,368,989**	2,368,989
764,972	**764,972**	Foreign currency reserve	15(c)	**294,514**	294,514
14,736,153	**13,160,018**	Retained earnings		**5,066,607**	5,673,419
114,465,047	**118,094,995**	**Equity**		**45,466,573**	44,069,043
		Liabilities			
136,386,026	**145,987,737**	Borrowings	17	**56,205,279**	52,508,620
46,290,545	**34,681,883**	Corporate deposits	18	**13,352,525**	17,821,860
20,145,813	**9,279,312**	Creditors and other payables	19	**3,572,535**	7,756,138
2,467,013	**2,673,239**	Taxation	6	**1,029,197**	949,800
205,289,397	**192,622,171**	**Total liabilities**		**74,159,536**	79,036,418
319,754,444	**310,717,166**	**Total equity and liabilities**		**119,626,109**	123,105,461
0.368	**0.362**	**Net assets per share**	22	**0.139**	0.142

These financial statements were approved and authorised for issue in accordance with a resolution of the directors on 29th January 2017.

Chairman

Director

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Share premium reserve	Legal reserve	Special reserve	Foreign currency reserve	Retained earnings	Total
	RO	RO	RO	RO	RO	RO	RO
Notes	13	14	15(a)	15(b)	15(c)		
At 1 January 2016	31,076,494	528,403	4,127,224	2,368,989	294,514	5,673,419	44,069,043
Profit and total comprehensive income for the year	-	-	-	-	-	4,505,180	4,505,180
Transfer to legal reserve	-	-	450,518	-	-	(450,518)	-
Cash dividend	-	-	-	-	-	(3,107,650)	(3,107,650)
Stock dividend	1,553,824	-	-	-	-	(1,553,824)	-
At 31 December 2016	**32,630,318**	**528,403**	**4,577,742**	**2,368,989**	**294,514**	**5,066,607**	**45,466,573**

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

STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2015

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

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RO	2015 RO
Profit before taxation		**5,295,588**	5,951,559
Adjustments for:			
Depreciation	7	**121,656**	99,854
Loss on property and equipment written off/sold		**(8,300)**	(162)
Provision for impairment on installments finance debtors – net	8	**935,615**	485,405
End of service benefits charge for the year	20	**60,225**	83,398
Operating profit before changes in operating assets and liabilities		**6,404,784**	6,620,054
Installment finance debtors:			
- Disbursements		**(46,141,329)**	(54,941,119)
- Principal repayments received		**49,105,944**	50,715,279
Other receivables and prepayments		**19,707**	(1,718)
Creditors and other payables		**(4,236,015)**	1,248,639
End of service benefits paid	20	**(7,813)**	(11,458)
Income taxes paid	6	**(711,011)**	(1,046,537)
Net cash from / (used in) operating activities		**4,434,267**	2,583,140
Investing activities			
Proceeds on sale of property and equipment		**8,680**	600
Purchase of property and equipment	7	**(124,656)**	(63,526)
Additional deposit with Central Bank of Oman		**(40,000)**	(40,000)
Net cash used in investing activities		**(155,976)**	(102,926)
Financing activities			
Long-term loans received		**32,949,999**	28,983,900
Long-term loans repaid		**(30,659,760)**	(24,087,044)
Net change in short-term loans		**1,800,000**	(7,300,000)
Corporate deposits		**(4,469,335)**	1,867,875
Bank overdrafts		**(393,580)**	180,948
Dividends paid		**(3,107,650)**	(1,925,092)
Net cash (used in) / from financing activities		**(3,880,326)**	(2,279,413)
Net change in cash and cash equivalents		**397,965**	200,801
Cash and cash equivalents at beginning of the year		**1,156,143**	955,342
Cash and cash equivalents at end of the year	12	**1,554,108**	1,156,143

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

For the year ended 31 December 2016

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of compliance

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

2.2 Basis of preparation

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

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

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

(a) Standards, amendments and interpretation effective in 2016:

For the year ended 31 December 2016, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2016.

Adoption of new and revised International Financial Reporting Standards ("IFRS")

The following standards, amendments and interpretations became effective from 1 January 2016:

- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27 : Equity method in Separate Financial Statements
- Annual Improvements 2012-2014 Cycle
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures
- Amendments to IAS 1 Disclosure Initiative
- IFRS 14 Regulatory Deferral Accounts

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of preparation (continued)

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

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2016:

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Company but are not yet mandatory for the year ended 31 December 2016:

IFRS 9: In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory. The Company has performed a high-level impact assessment of all three aspects of IFRS 9 and expects no significant impact on its balance sheet and equity. The Company plans to adopt the new standard on the required effective date.

IFRS 15: IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plan to adopt the new standard on the required effective date. The Company is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

IFRS 16: IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Company plans to assess the potential effect of IFRS 16 on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

2.4 Recognition of interest income and expenses

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

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

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

2.5 Taxation

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

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

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

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

2.6 Property and equipment

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Property and equipment (continued)

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

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

2.7 Financial assets

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

(a) Loans and receivables

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

(b) Available-for-sale financial assets

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

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

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

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

(c) Trade and settlement date accounting

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

(d) Derecognition of financial assets

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

i. the right to receive cash flows from the asset have expired; or
ii. the Company has transferred it rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and
iii. either (i) the Company has transferred substantially all the risks and rewards of ownership, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control over the asset or a proportion of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Installment finance debtors

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

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

(a) Assets classified as available-for-sale (continued)

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

Renegotiated installment finance debtors

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

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

2.10 Derivative financial instruments and hedge accounting

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

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

2.11 Cash and cash equivalents

All bank balances with maturity of three months or less from the date of placement are considered to be cash equivalents.

2.12 Borrowings and corporate deposits

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 and its amendments. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

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

2.14 Creditors and other payables

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

2.15 Provisions

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

2.16 Financial guarantees

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

2.17 Dividend distribution

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

2.18 Segment reporting

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

2.19 Earnings per share

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Fair value estimation

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

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

2.21 Directors' remuneration

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

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

2.22 Offsetting

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Impairment losses on installment finance debtors

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

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

Deferred tax asset

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

4 OTHER INCOME

	2016 RO	2015 RO
Bad debts recovered	**352,852**	357,895
Penal charges	**125,781**	109,732
Documentation fees	**101,959**	136,344
Foreclosure charges	**74,467**	86,760
Dividend Income	**70,567**	30,457
Insurance commission income	**68,939**	172,482
Profit on sale of assets	**8,678**	597
Others	**109,365**	47,733
	912,608	942,000

5 OTHER EXPENSES

	2016 RO	2015 RO
Staff costs (note 5.1)	**2,567,819**	2,625,130
Communication and traveling	**159,900**	219,425
Repairs and maintenance	**133,757**	136,790
Insurance	**121,441**	108,304
Proposed directors' remuneration (note 24)	**66,657**	100,652
Fees and charges	**61,151**	52,197
Rent	**56,390**	42,360
Bank charges	**56,324**	40,180
Directors' sitting fees (note 24)	**54,500**	57,500
Statutory and legal expenses	**51,744**	49,054
Water and electricity charges	**20,118**	22,338
Advertising and business promotion expenses	**8,197**	27,882
Loss on sale of assets	**378**	435
Others	**162,540**	165,076
	3,520,916	3,647,323

5.1 Staff costs

	2016 RO	2015 RO
Wages and salaries	**1,881,148**	1,818,329
Other benefits (note 5.2)	**520,634**	621,793
Contributions towards the Public Authority for Social Insurance Scheme	**105,812**	101,610
End of service benefits (note 20)	**60,225**	83,398
	2,567,819	2,625,130

5 OTHER EXPENSES (continued)

5.2 Other benefits

	2016 RO	2015 RO
Bonus to staff	**188,317**	233,563
Management incentives	**170,290**	208,900
Others	**162,027**	179,330
	520,634	621,793

6 TAXATION

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

	2016 RO	2015 RO
Statement of comprehensive income:		
Current tax:	**631,870**	710,587
Prior year	**158,538**	-
	790,408	710,587

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

	2016 RO	2015 RO
Current liability:		
Current year	**631,870**	710,587
Prior years	**397,327**	239,213
	1,029,197	949,800
Deferred tax asset:		
At 1 January	**5,881**	6,175
Movement during the year	**-**	(294)
At 31 December	**5,881**	5,881
The deferred tax asset comprises of the following temporary differences:		
Depreciation of property and equipment	**5,881**	5,881
	5,881	5,881

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

6 TAXATION (continued)

(c) The reconciliation of the tax on accounting profit at the applicable rate of 12% (2015 - 12%) after the basic exemption of RO 30,000 and the taxation charge in the financial statements is as follows:

	2016	2015
	RO	RO
Profit before taxation	**5,295,588**	5,951,559
Taxation at the applicable tax rate	**631,870**	710,587
Add / (less) tax effect of:		
Non – deductible expenses	-	-
Deductible expenses	-	-
Taxation expense	**631,870**	710,587

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

	2016	2015
	RO	RO
At 1 January	**949,800**	1,286,044
Charge for the year	**790,408**	710,587
Paid during the year	**(711,011)**	(1,046,537)
Deferred tax movement during the year	-	(294)
At 31 December	**1,029,197**	949,800

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

(e) The company's tax assessments have been agreed with the taxation authorities upto tax year 2009. The Tax Assessment order for the year 2010 has been received from tax authorities but the company proposes to file an appeal in respect of certain disallowances in the assessment.

7 PROPERTY AND EQUIPMENT

	Land	Buildings	Motor vehicles	Furniture and office equipment	Total
	RO	RO	RO	RO	RO
Cost	**1,969,215**	**769,966**	**38,000**	**1,158,038**	**3,935,219**
1 January 2016	**-**	**-**	**36,500**	**88,156**	**124,656**
Additions	**-**	**-**	**(30,000)**	**(42,131)**	**(72,131)**
Disposals					
	1,969,215	**769,966**	**44,500**	**1,204,063**	**3,987,744**
31 December 2016					
Depreciation	**-**	**329,792**	**37,998**	**958,633**	**1,326,423**
1 January 2016	**-**	**38,491**	**11,716**	**71,449**	**121,656**
Charge for the year	**-**	**-**	**(29,999)**	**(41,752)**	**(71,751)**
Related to disposals					
	-	**368,283**	**19,715**	**988,330**	**1,376,328**
31 December 2016					
Net book value					
31 December 2016	**1,969,215**	**401,683**	**24,785**	**215,733**	**2,611,416**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

7 PROPERTY AND EQUIPMENT (continued)

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

8 INSTALLMENT FINANCE DEBTORS

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

(a) Installment finance debtors arising from financing activities

	2016 RO	2015 RO
Gross installment finance debtors	**138,841,865**	144,312,563
Unearned finance income	**(18,824,871)**	(19,840,444)
Net installment finance debtors	**120,016,994**	124,472,119
Debt factoring activity debtors	**233,310**	1,019,532
	120,250,304	125,491,651
Impairment provision	**(4,498,533)**	(5,634,526)
Unrecognised contractual income	**(1,202,528)**	(1,407,652)
	114,549,243	118,449,473

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

8 INSTALLMENT FINANCE DEBTORS (continued)

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

	Upto 1 year	>1 year to 5 years	Total
At 31 December 2016	RO	RO	RO
Gross installment finance debtors	54,690,071	84,385,104	139,075,175
Installment finance and debt factoring activities debtors net of unearned interest	46,194,405	74,055,899	120,250,304
At 31 December 2015			
Gross installment finance debtors	57,326,079	88,006,016	145,332,095
Installment finance and debt factoring activities debtors net of unearned interest	48,386,243	77,105,408	125,491,651

(c) Movement in provision for loan impairment

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

2016	**Provision**		**Total**
	Principal	**Interest**	
	RO	**RO**	**RO**
At 1 January	**5,634,526**	**1,407,652**	**7,042,178**
Charged during the year	**2,010,991**	**299,516**	**2,310,507**
Released during the year	**(1,075,376)**	**(143,910)**	**(1,219,286)**
Written off during the year	**(2,071,608)**	**(360,730)**	**(2,432,338)**
At 31 December	**4,498,533**	**1,202,528**	**5,701,061**

The movement in the provision for impairment of finance debtors and reserved interest for 2015 was as follows:

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

Contractual interest is not recognised by the Company so as to comply with the rules, regulations and guidelines issued by Regulators against finance contract receivables from the month in which the receivables are impaired i.e. overdue by more than 89 days. As at 31 December 2016, the total balance of finance debtors on which interest has not been recognised amounted to RO 11.56 million (2015 - RO 11.02 million).

9 OTHER RECEIVABLES AND PREPAID EXPENSES

	2016	2015
	RO	RO
Prepaid expenses	**79,166**	37,450
Advances	**19,651**	80,791
Other debtors	**2,494**	2,777
	101,311	121,018

10 INVESTMENT SECURITIES

	2016 RO	2015 RO
Al-Soor Financing (Kuwait)	**554,149**	554,149
National Bureau of Commercial Information	**1**	1
	554,150	554,150

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

11 DEPOSITS WITH THE CENTRAL BANK OF OMAN

The deposit represents a capital deposit with the Central Bank of Oman made in accordance with the Banking Law of 1974. The deposit is only repayable if the Company terminates its installment finance business within the Sultanate of Oman and settles all outstanding obligations and claims arising from that business. During the year, the deposit earned interest at the rate of 1% (2015 - 1%) per annum. In accordance with the circular number FM 29 issued by Central Bank of Oman on 15 June 2011, the company has to increase statutory deposit by RO 40,000 every year so as to reach RO 250,000 before the end of year 2016.

12 CASH AND CASH EQUIVALENTS

	2016 RO	2015 RO
Bank and cash balances	**1,553,907**	1,155,943
Call deposits	**201**	200
	1,554,108	1,156,143

Call deposits are placed with a commercial bank in the Sultanate of Oman with annual interest rate of 0.25% (2015 - 0.25%) per annum.

13 SHARE CAPITAL

Share capital comprises 326,303,187 (2015 - 310,764,940) fully paid shares of RO 0.100 each. The Company's authorised share capital is RO 50,000,000 (2015 - RO 50,000,000).

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

	Number of shares		Percentage of holding	
	2016	2015	**2016**	2015
Oman Hotels and Tourism Company SAOG	**109,565,228**	104,347,837	**33.58**	33.58
The First National LLC	**43,015,169**	41,614,800	**13.18**	13.39
Global Holding Financial Investment Company	**37,083,515**	12,047,181	**11.37**	3.88

14 SHARE PREMIUM RESERVE

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

15 RESERVES

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

(b) Special reserve
During 2016, the Company transferred RO Nil (2015 – RO 23,058) to special reserve in accordance with the policy approved by the Board. As per policy the Company needs to create a special reserve to the extent of 1% of loans disbursed each year till it reaches 2% of the net instalment finance debtors and subject to provisions of Article 106 of the Commercial Company Law. The special reserve is being maintained to cover any delinquencies arising from unforeseen contingencies.

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

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

16 DIVIDENDS PROPOSED AND PAID

The Board of Directors have proposed a cash dividend of 8% and stock dividend of 7% for the year 2016 (2015: cash dividend of 10% RO 3,107,650 and stock dividend of 5% RO 1,553,824) subject to approval of the shareholders at the Annual General Meeting of the Company to be held in March 2017.

During 2016, the cash dividend of 10% for the year 2015, amounting to RO 3,107,650 proposed by the Board of Directors was paid after approval by Central Bank of Oman and the Annual General Meeting (AGM) of the Company held in March 2016. The stock dividend of 5% proposed for the year 2015 amounting to RO 1,553,824 was credited to the shareholders accounts after approval by Central Bank of Oman and the AGM of the Company. Further, an amount of RO 29,865 in respect of unclaimed dividends was transferred during the year to Investors Trust Fund with Muscat Clearance and Depositary Company.

17 BORROWINGS

	2016 RO	2015 RO
Current portion of long-term loans	**28,669,253**	23,029,209
Short-term loans	**12,500,000**	10,700,000
Long-term loans	**15,023,803**	18,373,608
Bank overdrafts	**12,223**	405,803
	56,205,279	52,508,620

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

18 CORPORATE DEPOSITS

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

19 CREDITORS AND OTHER PAYABLES

	2016 RO	2015 RO
Trade creditors	**1,970,512**	5,778,135
End of service benefits (note 20)	**485,031**	432,619
Interest payable	**290,597**	328,252
Accrued expenses	**183,485**	198,555
Advances received from customers	**27,553**	97,326
Others	**615,357**	921,251
	3,572,535	7,756,138

20 END OF SERVICE BENEFITS

	2016 RO	2015 RO
At 1 January	**432,619**	360,679
Charge for the year	**60,225**	83,398
Payments made during the year	**(7,813)**	(11,458)
At 31 December	**485,031**	432,619

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.

	2016	2015
Profit for the year (RO)	**4,505,180**	5,240,972
Weighted average number of shares	**322,567,215**	302,830,997
Basic earnings per share for the year (RO)	**0.014**	0.017

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:

	2016	2015
Net asset value (RO)	**45,466,573**	44,069,043
Number of ordinary shares outstanding	**326,303,187**	310,764,940
Net asset per share (RO)	**0.139**	0.142

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

23 SEGMENTAL INFORMATION

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

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

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

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

The segment information provided to the Management Committee for the reportable segments for the year ended 31 December 2016 is as follows:

Reportable segments	Corporate	Retail	Others (Insurance and debt factoring)	Unallocated items	Total
	RO	RO	RO	RO	RO
Segmental revenues					
Installment finance income	8,545,589	3,002,504	41,746	-	11,589,839
Interest expense	-	-	-	(2,628,672)	(2,628,672)
Net installment finance income	8,545,589	3,002,504	41,746	(2,628,672)	8,961,167
Other income	-	-	71,008	841,600	912,608
Segmental expenses					
Other expenses	-	-	-	(3,520,916)	(3,520,916)
Depreciation	-	-	-	(121,656)	(121,656)
Profit before tax and provision for impairment	8,545,589	3,002,504	112,754	(5,429,644)	6,231,203
Provision for impairment-net	(692,355)	(243,260)	-	-	(935,615)
Segmental profit for the year before tax	7,853,234	2,759,244	112,754	(5,429,644)	5,295,588
Income tax expense	-	-	-	(790,408)	(790,408)
Segmental profit for the year	7,853,234	2,759,244	112,754	(6,220,052)	4,505,180
Total assets	84,766,440	29,782,803	-	5,076,866	119,626,109
Total liabilities	-	-	-	74,159,536	74,159,536

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

23 SEGMENTAL INFORMATION (continued)

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

Reportable segments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

24 RELATED PARTIES

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

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

	2016	2015
	RO	RO
Directors' sitting fees (note 5)	54,500	57,500
Proposed directors' remuneration (note 5)	66,657	100,652
Other related parties :		
Installment finance income	7,222	4,172
Legal Expenses	10,135	10,580

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

	2016	2015
	RO	RO
Disbursements:		
Other related parties	125,854	27,001
Collections:		
Other related parties	43,778	49,744

(c) Amounts due from Related Parties:

	2016	2015
	RO	RO
Installment finance debtors due	122,873	55,717
Others	500	-

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

(d) Amounts due to Related Parties:

	2016	2015
	RO	RO
Business done	2,357,721	2,075,259
Amount due	147,516	173,601

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

	2016	2015
	RO	RO
Salaries and allowances	421,828	453,984
End of service benefits	17,395	20,328
	439,223	474,312

Salaries and allowance for 2016 include management incentives of RO 170,290 (2015 - RO 208,900).

25 CONTINGENT LIABILITIES

At 31 December 2016, there were contingent liabilities of RO Nil (2015 - nil) in respect of financial guarantees given to banks in the normal course of business on behalf of customers from which it is anticipated that no material liabilities will arise. Such guarantees are covered by counter guarantees from the customers in addition to other securities.

26 FAIR VALUE INFORMATION

It is the Company's intention to hold loans and advances to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The Company considers that the fair value of financial instruments at 31 December 2016 and 2015 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).

	31 Dec 2016	**Level1**	**Level2**	**Level3**
	RO	**RO**	**RO**	**RO**
Available-for-sale investments	**554,150**	**-**	**554,150**	**-**

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

During the reporting periods ended 31 December 2016 and 31 December 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

27 FINANCIAL RISK MANAGEMENT

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

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

27 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk

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

Maximum exposure to credit risk

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

	Gross maximum exposure 2016 RO	Gross maximum exposure 2015 RO
Installment finance debtors	**120,250,304**	125,491,651
Bank balances and deposits (including deposit with CBO)	**1,707,983**	1,287,622
Other receivables	**101,311**	121,018
Total credit risk exposure	**122,059,598**	126,900,291

Concentrations of credit risk

Concentration of risk is managed by client/counterparty and by industry sector exposures. There is no significant credit exposure relating to installment finance debtors to any single counterparty as of 31 December 2016. An industry sector analysis of the Company's installment finance debtors (net) before taking into account collateral held is as follows:

	2016 RO	2015 RO
Personal/car loans	**32,595,502**	32,963,223
Business loan - Construction contracts	**28,426,619**	31,271,382
- Services	**29,964,855**	27,291,583
- Construction equipment	**14,840,317**	16,639,057
- Other	**3,661,545**	4,018,055
- Trading	**2,635,183**	3,362,652
- Manufacturing	**2,425,222**	2,903,521
	114,549,243	118,449,473

27 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit quality per class of financial assets

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

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

	2016 RO	2015 RO
1 to 89 days	**23,261,639**	13,317,552

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

	2016 RO	2015 RO
90 to 364 days	**5,786,692**	3,060,407
365 days and above	**5,774,015**	7,961,429
Total	**11,560,707**	11,021,836

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

Renegotiated installment finance debtors

Renegotiated finance debtors as at 31 December 2016 was RO 1.92 million (2015 - RO 1.93 million). Out of these finance debtors amounting to RO 1.54 million (2015 - RO 1.54 million) were impaired at the time of renegotiation.

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

	2016 RO	2015 RO
A-1	**335,235**	127,447
A-3	**620,388**	665,326
Unrated	**502,361**	284,849
	1,457,983	1,077,622

27 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk

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

Foreign exchange risk

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

Interest rate risk

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

The interest rates on borrowings with banks are subject to change upon re-negotiation of the facilities which takes place on an annual basis in the case of overdrafts and at more frequent intervals in the case of short-term loans. The Company uses sensitivity analysis to analyse and measure interest rate on the variable cost of borrowings. Management estimates that the Company's interest costs are sensitive to the extent that change in 100 basis points in the average funding cost would change net interest income by RO 125,122 (2015 - RO 111,058). 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 2016

27 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate risk (continued)

The table below summarises the Company's exposure to interest rate risks. Included in the table are the Company's financial instruments and other assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as on 31 December 2016:

	Effective interest-rate in %	0-6 months RO	6 to12 months RO	1 to 2 years RO	2 to 3 years RO	More than 3 years RO	Fixed rate or non interest sensitive RO	Total RO
Assets								
Investment securities	-	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	1.00						250,000	250,000
Installment finance debtors	9.43	20,100,577	18,746,604	28,755,464	21,533,157	25,413,441	-	114,549,243
Other receivables	-	-	-	-	-	-	22,145	22,145
Cash and cash equivalents	0.25	201	-	-	-	-	1,553,907	1,554,108
Property and equipment and other assets	-	-	-	-	-	-	2,696,463	2,696,463
Total assets		**20,100,778**	**18,746,604**	**28,755,464**	**21,533,157**	**25,413,441**	**5,076,665**	**119,626,109**
Equity and liabilities								
Borrowings*		29,211,420	11,970,056	13,329,359	1,694,444	-	-	56,205,279
Corporate deposits*		3,281,145	2,071,380	8,000,000	-	-	-	13,352,525
Creditors and other payables		-	-	-	-	-	3,572,535	3,572,535
Equity and taxation		-	-	-	-	-	46,495,770	46,495,770
Total equity and liabilities		**32,492,565**	**14,041,436**	**21,329,359**	**1,694,444**	**-**	**50,068,305**	**119,626,109**
Interest rate sensitivity gap		**(12,391,787)**	**4,705,168**	**7,426,105**	**19,838,713**	**25,413,441**	**(44,991,640)**	
Cumulative gap		**(12,391,787)**	**(7,686,619)**	**(260,514)**	**19,578,199**	**44,991,640**		

*Borrowings and corporate deposits are at market rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

27 FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate risk (continued)

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

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

*Borrowings and corporate deposits are at market rates.

27 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

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

The amounts disclosed in table below analyses the Company's financial instruments and other assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances, as the impact of the discounting is not significant. Unutilised credit facilities as on 31 December 2016 were RO 34.77 million (2015 - RO 36.41 million).

27 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

31 December 2016	0-6 months	6 to 12 months	1 to 2 years	2 to 3 years	More than 3 years	Non-fixed maturity	Total
	RO	RO	RO	RO	RO	RO	RO
Assets							
Investment securities	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman						250,000	250,000
Installment finance debtors	20,100,577	18,746,604	28,755,464	21,533,157	25,413,441	-	114,549,243
Other receivables and prepaid expenses	101,311	-	-	-	-	-	101,311
Cash and cash equivalents	1,554,108	-	-	-	-	-	1,554,108
Property and equipment and other assets	-	-	-	-	-	2,617,297	2,617,297
Total assets	21,755,996	18,746,604	28,755,464	21,533,157	25,413,441	3,421,447	119,626,109
Equity and liabilities							
Borrowings	29,211,420	11,970,056	13,329,359	1,694,444	-	-	56,205,279
Corporate deposits	3,281,145	2,071,380	8,000,000	-	-	-	13,352,525
Creditors and other payables	2,794,012	293,492	-	-		485,031	3,572,535
Equity and taxation	631,870	-	-	158,538	-	45,705,362	46,495,770
Total equity and liabilities	35,918,447	14,334,928	21,329,359	1,852,982	-	46,190,393	119,626,109
Gap in maturity (excluding off balance sheet items)	(14,162,451)	4,411,676	7,426,105	19,680,175	25,413,441	(42,768,946)	
Cumulative gap in maturity	(14,162,451)	(9,750,775)	(2,324,670)	17,355,505	42,768,946	-	
<u>Assets off balance sheet</u>							
Unearned finance income	4,478,571	4,017,095	5,611,769	3,064,535	1,652,901	-	18,824,871
Total assets (including off balance sheet items)	26,234,567	22,763,699	34,367,233	24,597,692	27,066,342	3,421,447	138,450,980

27 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

31 December 2016 (continued)	0-6 months RO	6 to 12 months RO	1 to 2 years RO	2 to 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Total assets (including off balance sheet items)	26,234,567	22,763,699	34,367,233	24,597,692	27,066,342	3,421,447	138,450,980
Liabilities off balance sheet							
Interest payable on loans	1,085,458	649,516	533,035	31,568	-	-	2,299,577
Contingent liabilities	-	-	-	-	-	-	-
Total equity and liabilities (including off balance sheet items)	37,003,905	14,984,444	21,862,394	1,884,550	-	46,190,393	121,925,686
Gap in maturity	(10,769,338)	7,779,255	12,504,839	22,713,142	27,066,342	(42,768,946)	16,525,294
Cumulative gap in maturity	(10,769,338)	(2,990,083)	9,514,756	32,227,898	59,294,240	16,525,294	

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

27 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2016

27 FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

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

27 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management

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

The Company manages its capital structure and makes adjustments to it in the light of changes in business conditions. No changes were made in the objectives, policies or processes during the year. Capital comprises share capital, legal reserve, special reserve, foreign currency reserve and retained earnings, and is measured at RO 45.47 million as at 31 December 2016 (2015 - RO 44.07 million). The Company is in compliance with the Central Bank of Oman's minimum capital requirement of RO 25 million.

28 COMPARATIVE FIGURES

Certain corresponding figures for 2015 have been reclassified in order to conform with the presentation for the current year. Such reclassifications are not considered material and do not affect previously reported net profit or shareholders' equity.