

Annual Report 2021

It's time
to embrace new

horizons



المتحدة للتمويل
United Finance



His Majesty Sultan Haitham bin Tarik



His Majesty Sultan Qaboos bin Said

"May Allah have mercy upon him"

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Branches, Bankers & Auditors

Head Office

P.O. Box 3652, P.C.112, Ruwi

E-mail: ufc@ufcoman.com

Website: www.ufcoman.com

Tel: 24577300, Fax: 24561557

Branches

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

Bankers

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

Statutory Auditors

Ernst & Young



Board of Directors' Report



Mohamed Abdulla Al Khonji
Chairman

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present to you the audited financial results of your company for the year ended 31st December 2021.

Economic Overview

The year that went by was tumultuous, hopeful, challenging and satisfying, all rolled into one. In short, it was a year like no other. Leaders globally battled the twin challenges faced by saving and creating jobs, versus the challenge that Covid and its various variations of concern kept throwing at them. At the end, we feel that in Oman we have taken the bull by the horns and are opening up the economy slowly but surely, and we expect that normalcy will return by mid-2022, inshallah.

The buoyant Oil and Gas prices have helped tremendously, and have given Oman some breathing space in the coming year, with the Oil revenues for 2021 coming in at RO 5.55 billion versus a budget of RO 3.55 billion, and Gas revenues at RO 2.63 billion versus a budget of RO 1.87 billion. Credit rating agencies have also upgraded the outlook for Oman, and with the global economy on an upswing, the World Bank has projected a GDP growth rate of 3.4% in 2022 for Oman.

All this augurs well for your company and we expect to continue our good performance in the coming year as well.

“While United Finance has always placed its values around Oman’s people, community and economic development, the company is now fast tracking its emphasis on technology-led growth.”

Financial Performance

United Finance has embarked on a transformation journey and the appointment of a new CEO is a first step in this direction. Our Profit after tax came in at RO 1.91 million, which is a 147% growth over 2020 and the highest profit after tax since 2016.

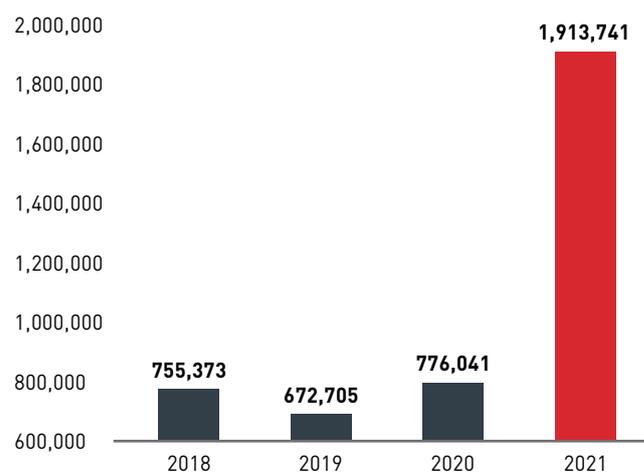
The company continued its strict focus on collection of overdue loans and the total impaired loans have come down to RO 26.29 million in 2021 from RO 27.3 million in 2020. Despite a challenging economic environment the impaired loans of the company have been coming down over the last two years and the company holds adequate impairment reserves. Our total provisions including special reserves, is one of the highest amongst finance companies at 78.4%. The company also implemented a new model for impairment provision based on the expert opinion of an external firm, and the same has been vetted by our external auditors. We believe our company is in a strong position going into next year and we expect the strong financial performance to continue.

Looking Ahead

We are optimistic of the year ahead even though the challenges of 2021 have not gone away. The efforts of His Majesty’s government have led to the budget deficit reducing and Oman has embarked on a transformation journey which emphasizes the diversification of the economy. In line with His Majesty’s Vision 2040, United Finance Company SAOG (UFC) has also undertaken a

transformation. While it has always placed its values around Oman’s people, community and economic development, the company is now fast tracking its emphasis on technology-led growth. This will lead to many opportunities for improved service delivery, new products and higher customer satisfaction. We believe this will be transformative, make us future ready and serve our ambition of the becoming a finance powerhouse in Oman.

Net Profit



Appointment of Chief Executive Officer

The Board appointed Nasser Salim Said Al Rashdi as the Chief Executive Officer to execute the company’s strategic plan and build UFC’s business by attracting, retaining and developing employees and also growing the overall



Board of Directors' Report (continued)

business of the company. He brings to UFC over 30 years of extensive experience in the areas of business development, risk management and internal audit. We welcome him and wish him all the success in the future.

Human Resources

We continue to work on improving our employee engagement through various initiatives and have engaged a leading training company to train our staff. Our goal is to ensure that by the end of 2022 every Omani employee has been through at least two training programs. We have also identified young Omanis to undertake special Leadership Training so that we can develop them as the future leadership of the company. We believe that our efforts will result in higher retention, improved productivity and also lower the overall costs of the company going forward.

Dividend

The Board of Directors has recommended a cash dividend of 3% for the year 2021.

Corporate Social Responsibility

As part of its corporate social responsibility initiatives, UFC continues to contribute to the community and donated an amount of RO 10,000 for the affected victims of Cyclone Shaheen. The company extends funding to SME's and local community contractors in the interior regions which indirectly aids in providing employment opportunities and a source of livelihood to the locals in the vicinity of the projects funded.

Acknowledgement

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

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.

May Allah bless all of us,



Mohamed Abdulla Al Khonji

Chairman

Board of Directors



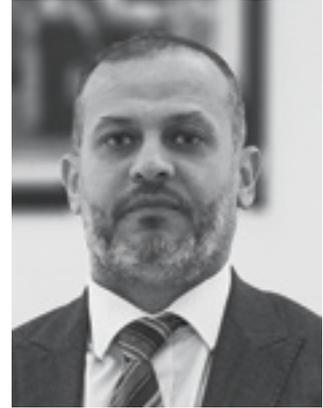
**Mohamed Abdulla
Al Khonji**
Chairman



**Hassan Ihsan Naseeb
Al Nasib**
Deputy Chairman



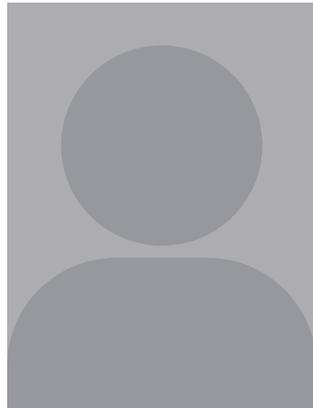
**Hussam Hisham
Omar Bostami**
Director



Waseem Salah Qaraeen
Director



**Khalid Abdullah Salim
Al Eisri**
Director



**Dr. Mohammed Sulaiman
Ahmed Saeed Al Houqani**
Director



Fariborz Vessali
Director





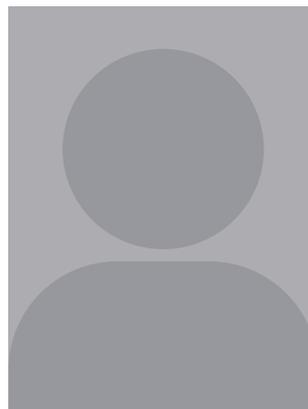
Audit & Risk Management Committee



Waseem Salah Qaraeen
Chairman



**Khalid Abdullah Salim
Al Eisri**
Member



**Dr. Mohammed Sulaiman
Ahmed Saeed Al Houqani**
Member

Nomination, Remuneration, and Executive Committee



**Mohamed Abdulla
Al Khonji**
Chairman



**Hassan Ihsan Naseeb
Al Nasib**
Member



**Hussam Hisham
Omar Bostami**
Member



Fariborz Vessali
Member

Management Discussion and Analysis



Nasser Salim Al Rashdi
Chief Executive Officer

Economic Overview

In 2021 Oman entered the first year of the Tenth Five Year Development Plan (2021-2025) with a lot of headwinds, caused mainly by geopolitical risks as well as the re-emergence of Covid, but in the end, the country came out strong, resilient and rising back to prominence. Part of Oman's Vision 2040 is to build a sustainable and diversified economy envisioned and led by His Majesty Sultan Haitham bin Tarik Al Said. United Finance Company has aligned itself to the country's vision with the aim of playing a critical role in the country's economic development.

A gradual recovery is already underway and the main drivers of this have been the dual effects of higher revenue from the Oil and Gas sector as well the measures taken by the government to curtail its budget deficit. Fitch estimates that the budget deficit narrowed to 3.4% of GDP in 2021, from 16.1% of GDP in 2020. The implementation of a 5% VAT, a successful roll-out of the vaccination program, and the raising of the economic outlook by various rating agencies bode well for the country in 2022. The budget for 2022 is based on a conservative basis on the Oil price being on average at USD 50/b and the early indicators are that by the end of the year, the revenue budget will be met comfortably.

The latest published statistics of the Central Bank of Oman indicate that household savings grew during the pandemic period and the strong capital of banks and FLCs

“United Finance Company has aligned itself to the country’s vision with the aim of playing a critical role in the country’s economic development.”

allowed them to weather the storm and continue lending support to the economy.

Industry Overview

The measures taken by the Central Bank of Oman to support the leasing industry during this difficult period were laudable and timely. They allowed for an extension of deferment of loan repayments throughout 2021 and then rightly put a stop to this at the end of 2021, as the economy started to turn around. They have allowed for restructuring of credit facilities and also policy relief to those Omanis who had lost their jobs due to the Covid related slowdown. All this has restored confidence in the business community and we are seeing economic activity pick up pace in Q1 2022.

While the net debtors of the leasing sector saw a marginal decline in 2021 to RO 861 million from RO 882 million in 2020, the profitability of the sector grew by 95% during this period, from RO 8.69 million to RO 16.97 million. This was primarily due to the turnaround of the economy post-Covid and the prudent steps taken by the leasing companies to manage their costs – both operational and financial.

The steps taken by the Central Bank of Oman also helped the leasing sector absorb the shock of the pandemic in 2021, although there could be some increased stress in 2022 due to the end of the deferment of loan repayments. The sector, on the whole, is well-capitalized and adequate

provisions have been made. The latest Financial Stability Report of the Central Bank has shown confidence in the ability of the Banking and Finance sector to absorb any stresses in 2022 and also ability to continue lending support to key sectors of the economy. The non-banking finance companies play a critical role in the development of any economy, particularly in Oman. They cater to segments that are untouched by banks. Going forward, technology – will be a key differentiator. Leasing companies have to diversify their products and create value-added benefits and not just be single product lending companies. Increased competition will mean reduced margins and portfolio quality will be the key differentiator for success.

Opportunities & Threats

Oman’s Vision 2040 is the cornerstone for Budget 2022, which after many years has the comfort of a cushioning effect of the increase in oil prices. While the budget for 2021 was set at an average oil price of USD 45/b, the average oil price achieved was around USD 61/b. The budget for 2022 is set at USD 50/b and the oil price has already crossed USD 100/b. The focus of government spending will remain on basic services and economic diversification will remain a key priority. The Medium-Term Fiscal Plan focuses on investments in the non-hydrocarbon sector other than the energy sector. The government expenditures are planned in sectors such as services, tourism, logistics, food, and fisheries.

Management Discussion and Analysis (continued)

United Finance is pivoting to a technology-led and customer-focused leasing company that will support the people, economy, and sectors on which Oman's Vision 2040 focuses. The company has embarked on a transformation journey focusing on its customer experience enabled by the latest technologies and led by its main asset "its people". The Customer experience has been the centrepiece for all initiatives and in a short time, the company has developed a significant social media presence to stay relevant, engaging, and insightful. The transformation aim is to be able to offer products and services to individuals and corporates simply and efficiently while staying agile and responsive to its customer's needs and demands.

The continued penetration of Banks into SME funding and vehicle financing at lower interest rates and extended loan tenures poses a challenge to FLCs, which as result triggers price-related competition eventually making it challenging to any FLCs growth plans. We have faced this in the past as well and we are confident of finding solutions to overcome these challenges. We believe that technology-led service providers such as Fintechs will, and already are cannibalizing multiple markets by offering a superior customer experience and with the agility to deliver products and services to the market. With this phenomenon in mind, we are gearing up to adapt and align ourselves to fulfil customer's needs and we aim to be a key player in the FLCs market.

Analysis of Segment & Product-wise Performance

UFC focuses on extending finance to the retail and corporate segments with the objective of maintaining a balanced loan portfolio. As of December 2021, its corporate exposure stood at 66% and retail exposure at 34%. We consciously reduced our exposure to the construction sector, while maintaining other lower-risk sectors. Loans extended for assets used by the borrowers for income generation are classified under the corporate segment, while assets used for personal purposes are classified under the retail segment.

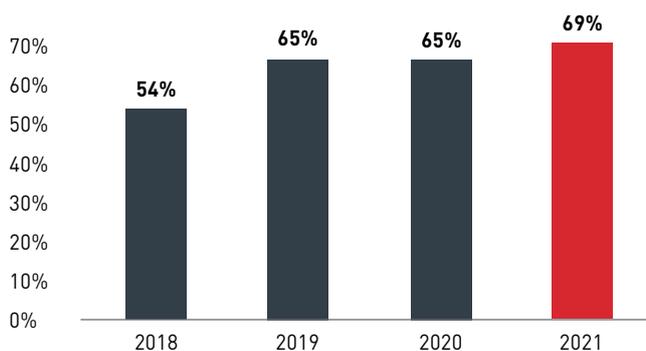
The Management evaluates the loan portfolio of the company regularly, based on the repayment track record, income spreads, and incidence of delinquencies, and suitably amends its lending norms to mitigate risk. The credit criteria of the company are periodically reviewed and revised based on market feedback and risk review reports, to safeguard against delinquencies. All loans extended by the company are secured by the assets financed and in specific cases, additional security by way of assignment of receivables, collateral assets, mortgage of property, personal guarantees of borrowers, and counter-parties are obtained to mitigate the risks from unforeseen developments.

Outlook

United Finance Company aims to become a next-generation Finance Powerhouse that uses technology to create a value-exchange ecosystem for digitally-engaged

individuals, corporates, and small-medium enterprises (SMEs). The company will continue to provide a range of financial products and services - car loans (new and used cars), equipment loans, heavy vehicle financing, bill discounting, working capital funding, and corporate deposits, but will reinvent its product and delivery channels to align them to the changing needs of the technology-led market.

Provision Coverage



The company continues to enhance its efforts on the collection front to curb fresh delinquencies and bring down the level of impaired loans.

Human Resources

United Finance has a clear goal that aligns with Vision 2040 of creating more jobs for the Omani population. We believe in developing our in-house talent and have engaged a leading training company to train our young Omani staff for future leadership roles. This investment in

our talent will improve efficiency, increase retention, and lower hiring costs in the future. We have achieved 100% Omanisation of our branch network and currently, our Omanisation rate is well above the stipulated 80%.

Performance management, increased communication, coaching, employee motivation, and training will continue to be key focus areas of the company.

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, others are caused by unforeseen events and developments. Since financial institutions play a complementary role in financing developmental activities to promote economic growth, they are directly affected by risks that the economy is exposed to at large. Therefore, financial institutions must take consistent and proactive measures to effectively manage risk.

The company has laid down well-defined policies and procedures for all its financial and business transactions that aid in mitigating operational risk through internal control measures. Periodic review of the performance of the loan portfolio of the company by the Risk Management Team helps in evaluating the risks the company and the industry are exposed to.

The Risk Management Team regularly reviews the economic and market developments and their likely

Management Discussion and Analysis (continued)

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 corporate proposals and retail proposals above a threshold level and highlight their views to the sanctioning authorities to facilitate objective decision-making.

We have restructured and strengthened our Risk Team so they are ready for the challenges that may come our way in 2022 and beyond.

Credit Risk

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

We are monitoring this risk closely and our non-performing loan portfolio has reduced from RO 27.3

million in 2020 to RO 26.3 million in 2021, despite all of the challenges that the sector faced this year.

Interest Rate Risk

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

The average Net Interest Margin for the company has improved in 2021 and we will continue to focus on this key financial metric.

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 assets and liabilities at monthly intervals and initiate proactive measures to counter the incidence of liquidity risk.

We have good support from local banks and have adequate lines to meet our commitments for 2022 and beyond.

Internal Control Systems & their Adequacy

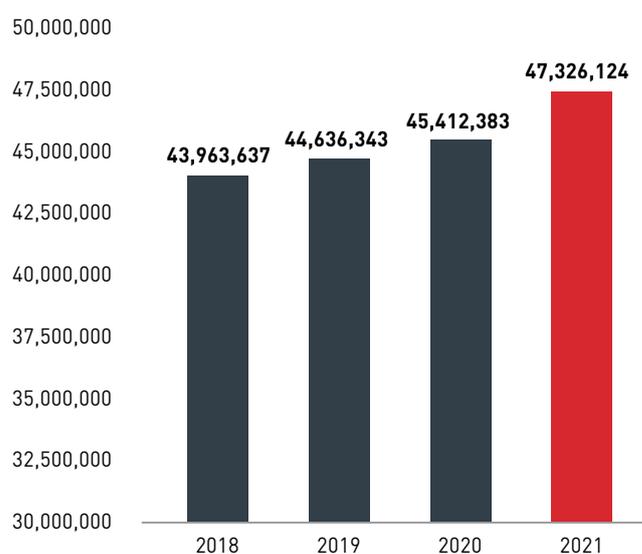
UFC has a competent internal audit team in place manned by experienced professionals. The company had assigned some areas of internal audit to PWC to complement the scope of work of the in-house audit team. In addition to the regular checks carried out, their scope of work also focuses on risk-based audits. The internal audit setup in place is appropriate to handle the level of operations of the company. The department directly reports to the Audit & Compliance Risk Management Committee (ARCMC), which comprises members from the Board.

The internal control systems of the company are also reviewed regularly to implement checks and balances to enhance the effectiveness of controls in place to avoid the incidence of errors. The policy and procedure manuals covering various areas of operation are reviewed and updated by the Heads of Departments and Management at periodic intervals in line with the changing business environment and circulated to the concerned departments, for their reference and compliance, after approval by the Board.

The role of internal audit is further strengthened through the compliance function to ensure conformity with statutory and regulatory requirements. The compliance function is independently headed by an experienced and

competent Chief Compliance Officer who reports to the ARCMC. He is assisted by Departmental Compliance Officers in each department and at all branch offices.

Net Worth



The compliance issues in every area of operation of the company have been defined and specific staff in each department have been identified, trained, and entrusted with the responsibility of ensuring compliance with the prescribed norms. Periodic training in areas of compliance is conducted at the company along with training sessions at branches during visits by the Chief Compliance Officer to inculcate a compliance culture.

Management Discussion and Analysis (continued)

Information Technology, Disaster Recovery and Business Continuity Plan

UFC has a team of experienced and competent information technology professionals. The company emphasizes regularly reviewing and upgrading its IT infrastructure to cater to the needs of the changing business environment. The company plans to upgrade to state-of-the-art software, which is in use by many banks and financial institutions in different countries.

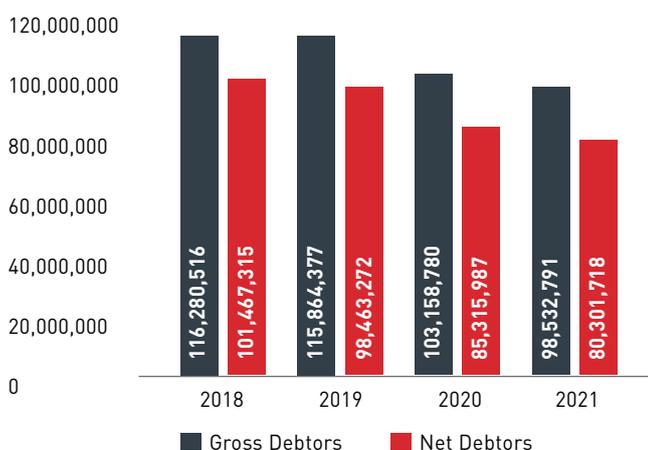
The company maintains its Disaster Recovery (DR) infrastructure at Barka. This setup is tested annually in line with CBO guidelines to ensure preparedness. With

the DR infrastructure in place, the company is equipped to ensure business continuity with minimum downtime, in the event of any disruption. The company has in place the necessary resources and an approved comprehensive Business Continuity Plan as applicable to financial institutions.

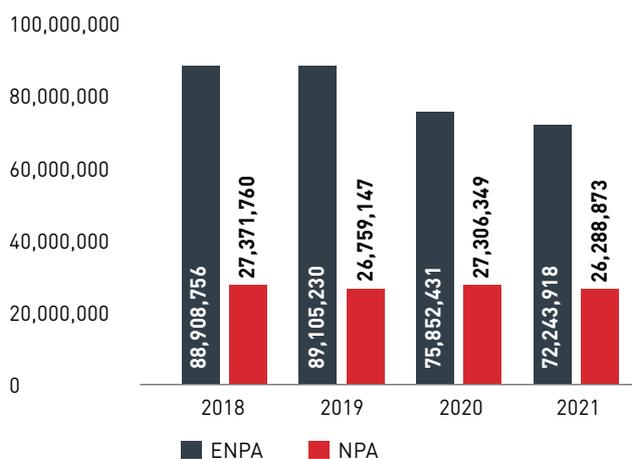
Discussion on Financial Performance

The company registered a net profit increase of 147% to RO 1.914 million for the year 2021 as against RO 0.776 million in the previous year. The main factors contributing to the increase in net profit were the lower provisions due to control on slippages in the non-performing loan portfolio

Gross Debtors vs Net Debtors



ENPA vs NPA



“The company registered a net profit increase of 147% to RO 1.914 million for the year 2021 as against RO 0.776 million in the previous year.”

as well as tight control on interest and operating costs. The Operating Profit grew by 50% to RO 3.6 million, Finance Income grew by 9% to 8.2 million and Net Interest Income grew by 25% to 6.25 million.

In 2021 UFC continued its cautious approach to new loans given the uncertain market conditions that prevailed due to the variants of the Covid-19 pandemic. The loan portfolio as of December 2021 was RO 80.3 million against RO 85.32 million at the end of the previous year.

Impaired loans as of December 2021 were lower at RO 26.3 million as against RO 27.3 million as of December 2020.

The fund position of the company was comfortable during the year. The Company mobilized adequate credit limits facilities from banks to meet its business requirements.

The company provided RO 1.3 million as impairment provision during the year in compliance with IFRS 9 requirements, which includes specific provisions for impairment, additional provisions due to significant increase in credit risks as well as general provisions to cater for post-deferment slippages. The Company is

taking appropriate pre-emptive steps to improve collections and bring down the level of impaired loans in the coming year.



Nasser Salim Al Rashdi
Chief Executive Officer

Performance at a Glance (RO '000)

Particulars	2019	2020	2021
Total Assets	102,423	89,374	84,456
Share Capital	34,914	34,914	34,914
Total Equity	44,636	45,412	47,326
Finance Debtors	98,463	85,316	80,302
Total Borrowings	52,010	40,675	31,947
Gross Income	9,101	7,978	7,768
Net Finance Income	5,690	4,997	5,291
Net Profit	673	776	1,914



Report of Factual Finding to the Shareholders of United Finance Company SAOG



We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/1015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of United Finance Company SAOG (the "Company") as at and for the year ended 31 December 2021 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 summarized 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 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 2021. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of United Finance Company SAOG to be included in its annual report for the year ended 31 December 2021 and does not extend to any financial statements of United Finance Company SAOG, taken as a whole.

The EY logo, consisting of the letters 'EY' in a bold, sans-serif font with a yellow triangle above the 'Y', is positioned above the signature.

Muscat
15 March 2022

Report on Corporate Governance for 2021

1. 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:

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

Report on Corporate Governance for 2021 (continued)

1.2 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.

1.3 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 Compliance 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.

Report on Corporate Governance for 2021 (continued)

2. Board of Directors

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

Executive Directors	NIL
Independent, Non-Executive Directors	<ol style="list-style-type: none"> 1. Mr. Waseem Salah Qaraeen 2. Mr. Khalid Abdullah Salim Al Eisri
Non-independent, Non-Executive Directors	<ol style="list-style-type: none"> 1. Mr. Mohamed Abdulla Al Khonji (Chairman) 2. Mr. Hassan Ihsan Naseeb Al Nasib (Deputy Chairman) 3. Mr. Hussam Hisham Omar Bostami 4. Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani 5. Mr. Fariborz Vessali

2.1 Directors' profile

- **Mr. Mohamed Abdulla Al Khonji**, is a bachelor's in economics and graduated in 1994 from the University of Northern Colorado, USA. He is a major investor in several companies and real estate in Oman. Besides being the Chairman of the Board and Chairman of the Nomination Remuneration Executive Committee in United Finance Company SAOG, he is Deputy Chairman and member of the Executive Committee, at Takaful Oman Insurance SAOG he is the Deputy Chairman and a member of the Executive Committee at Oman Fiber Optic Company SAOC he is a Board Member and member of Audit Committee, Chairman of the Board and Chairman of Executive Committee in Oman Hotels & Tourism Company SAOC and Director at Salam Air SAOC. Apart from this he is also the Deputy Chairman of the Board & Chairman of Executive Committee at Al Khonji Group & Chairman of Al Khonji Invest LLC. and Chairman of Al Khonji Real Estate & Development LLC.
- **Mr. Hassan Ihsan Naseeb Al Nasib** has done a master's in military science. He has over 37 years of experience at the Ministry of Defence. He has contributed to the establishment of many of closed and limited liability companies. Currently, he is the Chairman of the Board in Oman Education & Training Investment Company SAOG, Global Financial Investment Holding Co. SAOG, and of Al Madina Logistics, and a member of the Board of OHI Group SAOC, member of Nomination Remuneration Executive Committee of United Finance Company SAOG and Board member of Al Shams Packing Company SAOG.
- **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's 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 as Credit & Investment Officer in the Islamic International Arab Bank (Jordan). He currently holds the position of General Manager – Finance & Administration / Acting CEO with Global Financial Investment Holdings Co. SAOG, Oman. Besides being a board member and a member of the Nomination Remuneration Executive Committee in United Finance Company SAOG, he is also on the board of Construction Material Industries SAOG, Gulf Stone Co. SAOG, Al Madina Logistic Services Co. SAOC and Al Sharqiyah University SAOC.

Report on Corporate Governance for 2021 (continued)

- **Mr. Waseem Salah Qaraeen**, holds a Degree in Bachelor of Economics, Administration, Sciences (Accounting) from, Amman – Jordan. He also holds a master's certificate (MBA) from the Bedfordshire University in UK. With over 20 years of experience in the field of investment, and Internal and External Audit. He is serving as Board member in Oman Education & Training Investment Company SAOG, Al Batinah Development and Investment Holding Company SAOG and in Al Batinah Hotels Company SAOG. He is the Chairman of the Audit and Risk Committee of United Finance Company SAOG and has experience in the local and overseas financial markets and has experience in the company's administration as well.
- **Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani** is an investor, scholar, and physician. He did his postgraduate training in the fields of Internal Medicine, Respiratory and Sleep Medicine at the University of Toronto from 2004 till 2010. He also obtained a Master of Public Health degree in 2012. He has accreditations and fellowships from reputed institutions in Canada and USA. He has published scientific articles and been a speaker in various forums. Currently, Dr. Mohammed is serving as a Board member of several companies and is a member of the Audit and Risk Committee of United Finance Company SAOG. He also practices Medicine and conducts scientific research projects. His investment is concentrated in education and health sectors.
- **Mr. Fariborz Vessali** holds a bachelor's degree in Mechanical Engineering, a master's degree in Engineering Science from the University of New South Wales, Sydney and a master's degree of Business Administration from the University of Technology, Sydney. He is a proven leader with over 26 years of leadership and Executive Management experiences in various multinational companies. At present, he is the Chief Executive Officer of Oman Hotels and Tourism Company SAOC (OHTC) and a Board Member and Member of Nomination Remuneration Executive Committee of United Finance Company SAOG (UFC) and National Hospitality Institute (NHI).
- **Mr. Khalid Abdullah Salim Al Eisri** is a Chartered Financial Analyst (CFA) and has Bachelor Degree in Finance from the Sultan Qaboos University. He has over 15 years of working experience in Corporate advisory and in investment management Prior to joining AL Anwar Investment, he was an Acting Senior Manager at Oman Investment Authority. Mr. Khalid is also an experienced board members and has been a board member in entitles such as RAK Ceramics, AL –Hosn Investment, Oman Growth fund, Oman Emirates investment, Holding Ubhar Capital, United Finance Company and Gulf Mushroom Products Company.

Report on Corporate Governance for 2021 (continued)

2.2 Details of attendance of Board Members for Board Meetings during 2021

	Board Member	Board Meeting Dates						
		28-1-2021	29-4-2021	25-5-2021	7-6-2021	29-7-2021	29-10-2021	21-12-2021
1	Mr. Mohamed Abdulla Al Khonji	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2	HE Hassan Ihsan Naseeb Al Nasib	Yes	Yes	Yes	Yes	Yes	Yes	Yes
3	Mr. Hussam Hisham Omar Bostami	Yes	Yes	Yes	Yes	Yes	Yes	Yes
4	Mr. Waseem Salah Qaraeen	Yes	Yes	Yes	Yes	Yes	Yes	Yes
5	Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani	Yes	Yes	Yes	Yes	Yes	Yes	Yes
6	Mr. Fairborz Vassali	Yes	Yes	Yes	Yes	Yes	Yes	Yes
7	Mr. Khalid Abdullah Salim Al Eisri	Yes	Yes	Yes	Yes	Yes	Yes	Yes

2.3 Details of attendance of Board Members for AGM during 2021

	Board Member	AGM 27-03-2021
1	Mr. Mohamed Abdulla Al Khonji, Chairman	Yes
2	HE. Hassan Ihsan Naseeb Al Nasib, Deputy Chairman	Yes
3	Mr. Hussam Hisham Omar Bostami	Yes
4	Mr. Waseem Salah Qaraeen	Yes
5	Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani	Yes
6	Mr. Fariborz Vessali	Yes
7	Mr. Khalid Abdullah Salim Al Eisri	Yes

Report on Corporate Governance for 2021 (continued)

2.4 Details of membership of other Boards:

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

3. Brief description of Terms of Reference

3.1 Audit, Risk & Compliance 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 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 reference to review of annual and quarterly financial statements before issue, review of qualifications in the draft financial statements and discussion of accounting principles. 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.

Report on Corporate Governance for 2021 (continued)

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

3.2 Nomination Remuneration and Executive Committee

- Decide on all proposals exceeding management authority as per the Authorities Manual.
- Review Credit Policy and new Products and make recommendations to Board.
- Review management analysis for reasons, review follow up adequacy, discuss measures for avoidance of similar cases in future in relation to Non-performing accounts. It is expected that NPAs will be reviewed by this committee as specified under Authorities Manual.
- Review periodically, at least once in six months, the adequacy of provisions based on management reports.
- Submit to the Board an annual plan of action.
- Review the nominations for board membership received by the company and make suitable recommendations to the Board for further appropriate action, as per the local regulations / laws.
- Identify and nominate, for the approval of the Board and ultimately the shareholders, candidates to fill Board vacancies as and when they arise as well as putting in place plans for succession, with respect to the Chairman of the Board and the Chief Executive Officer.

Report on Corporate Governance for 2021 (continued)

- Prepare the detailed job description of the roles and responsibilities for the directors including the Chairman.
- Regularly review 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, considering 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 marketplace.
- Devise a procedure for periodic performance evaluation of the Board of Directors.
- Evaluate the balance of skills, knowledge, and experience on the Board, and in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment, before a director's appointment is made by the Board,
- Ensure the development of guidelines for selecting candidates for election / re-election to the Board, or to fill temporary vacancies on the Board; and
- Review terms of reference periodically for its effectiveness and recommend any changes to the Board, if required.
- Formulate "Succession Plan" for key senior managerial positions to ensure continuity in the Management, considering the challenges and opportunities facing the Company
- Prepare succession policy or plan for the Board or at least for the Chairperson
- Determine board remuneration, sitting fees etc., based on performance of the Board in compliance with statutory limits
- Review and recommend the strategy and annual budgets to the Board.
- Review, recommend new products, opening of new branches, strategic alliances etc., to the Board
- Consider future expansion and recommend construction of new building, including acquiring property to accommodate future needs.
- Formulate and recommend company's CSR strategy and plan and recommend it to the Board, in compliance with AOA and Code of Corporate Governance. Also, evaluate the effects of CSR initiatives
- Review Disaster Recovery and Business Continuity Plan of the company and apprise the changes, if any, to the Board. In case of disaster, provide guidance to the Management for smooth recovery and restoration of normalcy in operations.
- As per Board's direction, to obtain legal counsel, in matters of legal proceedings by / against the company for any matter, pursue the matters, and apprise the Board on proceedings.
- Provide feedback, concerns, and directions to the Management for performance, without actively participating in the operations.
- Encourage Management in promoting ethical behaviour in the company. Approve Code of Ethics to be followed by board members and staff.
- Ensure that compliance culture is encouraged at all levels in the Management.

Report on Corporate Governance for 2021 (continued)

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

4.1 Details of attendance of Board Members for Audit, Risk & Compliance Committee meetings during 2021.

Date	Name of the Member and their representation in the Committee		
	Chairman of the Committee	Member of the Committee	Member of the Committee
	Mr. Waseem Sala Qaraeen	Dr. Mohammed Sulaiman Ahmed Saeed Al Houqani	Mr. Khalid Abdullah Salim Al Eisri
27.1.2021	YES	YES	YES
28.4.2021	YES	YES	YES
13.6.2021	YES	YES	YES
28.7.2021	YES	YES	YES
12.8.2021	YES	YES	YES
27.10.2021	YES	YES	YES
20.12.2021	YES	YES	YES

4.2 Details of attendance of Board Members for Nomination, Remuneration, Executive Committee meetings (NREC) during 2021

Date	Name of the Member and their representation in the Committee			
	Chairman of the Committee	Member of the Committee	Member of the Committee	Member of the Committee
	Mr. Mohamed Abdulla Al Khonji	HE. Hassan Ihsan Naseeb Al Nasib	Mr. Hussam Hisham Omar Bostami	Mr. Fairborz Vassali
26.1.2021	YES	YES	YES	YES
1.3.2021	YES	YES	YES	YES
25.3.2021	YES	YES	YES	YES
27.4.2021	YES	YES	YES	YES
26.10.2021	YES	YES	YES	YES
19.12.2021	YES	YES	YES	YES

Report on Corporate Governance for 2021 (continued)

5. 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.

6. Appraisal of the performance of the Board of Directors

As per clause no 2(o) of the fourth principle of Corporate Governance codes, the Chairperson must arrange for an appraisal of the performance of the board impartially and independently by a third party and present for approval at the annual general meeting in accordance with a benchmark and standards set by the board or general meeting. Consequently, the shareholders have appointed Keynote Services LLC for carrying out this activity.

The Board evaluation exercise was undertaken by Keynote Services LLC in 2019 by administering a questionnaire. The questionnaire had quantitative as well as qualitative questions. It was followed up by interviews with the chairman. During the review, the team held discussions and sought clarifications with Non-executive as well as independent directors, CEO and board secretary. Observations were based on information and views provided by the board members through the questionnaire and those interviewed. The team made few recommendations based on the requirements of Oman Corporate Governance Code and best practices globally. The conclusions were submitted by the evaluation team to the Chairman of the board.

The evaluation criteria for the full board includes its role/participation in strategy formulation, succession planning, review of board composition, business oversight, governance process.

The board is effective in discharging its responsibilities and the Board processes are followed comprehensively. The board functioned in a smooth and constructive manner with free and open discussions amongst the board members.

Report on Corporate Governance for 2021 (continued)

7. Remuneration of Directors and 5 top officials of the company

7.1 The Board of Directors has been paid an amount of RO 70,000 as sitting fees.

	Board Member	Sitting Fees Paid RO
1	Mr. Mohamed Abdulla Al Khonji , Chairman	10,000
2	HE Hassan Ihsan Naseeb Al Nasib	10,000
3	Mr. Hussam Hisham Omar Bostami	10,000
4	Mr. Waseem Salah Qaraeen	10,000
5	Mr. Fairborz Vassali	10,000
6	Mr. Khalid Abdullah Salim Al Eisri	10,000

7.2 During the year the company incurred an annual cost, including variable component of RO 219,082/- in respect of its 5 top officials. (2020: RO 141,739/-).

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

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

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

8. Details of non-compliance by the company

The company had no occasion to attract penalties or strictures from Muscat Securities Market and Capital Market Authority during the last 3 years. In 2019 the company paid RO 20,000/- as penalty to the Central Bank of Oman for not fully complying with AML Law 2016 and CBO Circular FM 34. During 2021 and 2020 the company had no occasion to attract penalties from Central Bank of Oman.

9. 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 Stock Exchange 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.

Report on Corporate Governance for 2021 (continued)

10. Market price data

2021 / Month	High	Low	Close	No. of days traded	No. of Shares traded	Financial Sector MSX Index (Monthly Average)
January	0.047	0.041	0.042	59	1,011,593	5,492.61
February	0.042	0.036	0.041	136	3,169,110	5,429.14
March	0.047	0.042	0.045	475	14,342,581	5,699.72
April	0.047	0.043	0.045	440	21,079,387	5,822.34
May	0.045	0.045	0.043	197	7,932,065	5,979.84
June	0.064	0.044	0.063	2,360	86,070,410	6,466.07
July	0.063	0.055	0.060	510	10,953,669	6,445.90
August	0.061	0.057	0.060	248	7,181,629	6,321.77
September	0.061	0.055	0.058	205	4,973,918	6,235.67
October	0.059	0.054	0.057	101	2,095,776	6,402.56
November	0.058	0.052	0.053	74	1,519,607	6,371.88
December	0.060	0.050	0.059	233	7,220,689	6,577.92

Shares are quoted based on RO 0.100 as par value

10.1 Distribution of shareholding:

SHAREHOLDERS (5% and ABOVE) AS ON 31-12-2021

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

Report on Corporate Governance for 2021 (continued)

11. Related party transactions

The company adopts the highest degree of transparency and clarity for related party transactions. All such transactions are subject to review of the audit committee and approval of the board of directors and where required, by shareholders in Annual General Meeting.

The details of such transactions, where required, will be sent to every shareholder along with the notice to general meeting covering the related party transaction detail. These transactions will also be disclosed in detail in the company's annual report.

12. Professional profile of EY: 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 7,500 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 4,853 partners and approximately 132,455 professionals. Globally, EY operates in more than 150 countries and employs 312,000 professionals in 700 offices. Please visit ey.com for more information about EY.

13. Details of audit & other fees for the year 2021

Audit fees	RO.26,500
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14. Corporate social responsibility

We are committed to responsible business. This means, running United Finance Company SAOG in a way that our employees can be proud of, ensuring financial strength and transparency for our shareholders, putting our customers first, and delivering long-term value to our environment and society.

Our vision is to be a responsible business working with its customers and stakeholders to help meet society challenges.

Report on Corporate Governance for 2021 (continued)

Our CSR strategy is underpinned by three core ambitions

1- Safe, secure world

We believe we can play a powerful and practical role in helping our customers to avoid risks, using insight, data and our product development expertise to help keep them safer in their homes, on the roads and in their businesses.

2- Thriving communities

Our business will not be successful unless the communities we operate in also flourish and thrive. We're supporting our employees to contribute to the economic and social development of their local areas, by sharing skills, offering time, and fundraising local causes.

3- Responsible business

Being a responsible business means being open and transparent with our customers, employees and suppliers about how we manage our operations and deliver our products. This helps us to build dialogue and trust, and to understand where and how we can improve.

15. Acknowledgement by Board of Directors

The Board acknowledges that:

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



Mohamed Abdulla Al Khonji

Chairman

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 2021, and the related statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021 and its financial performance and its 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’ International Code of Ethics for Professional Accountants (including international Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on 18 March 2021.

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.

Independent Auditor's Report to the Shareholders of United Finance Company SAOG (continued)



Report on the audit of the financial statements (continued)

Key audit matters (continued)

Determination of impairment on instalment finance debtors

Key audit matters	How our audit addressed the key audit matters
<p>At 31 December 2021, the Company reported instalment finance debtors amounting to RO 99 million, RO 15 million of impairment on instalment finance debtors and RO 3 million of unrecognised contractual income on investment in finance debtors.</p> <p>The key areas of judgement include:</p> <ul style="list-style-type: none"> • The effects of Covid-19 global pandemic impacting the management's determination of the impairment of instalment finance debtors as it required the application of unusually high level of judgment and estimation uncertainty, which may materially change the estimates in future periods. • The identification of exposure with a significant deterioration in credit quality. • Assumptions used in the impairment model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc. • The need to apply additional overlays to reflect current or future external factors that might not be captured by the impairment model. <p>Due to the inherently judgemental nature of the computation of impairment on instalment finance debtors coupled with the higher degree of estimation uncertainty due to the economic impacts of Covid-19 on instalment finance debtors, we have considered impairment on instalment finance debtors as a key audit matter.</p>	<p>Our audit procedures in this area included the following:</p> <ul style="list-style-type: none"> • Evaluated the appropriateness of the Company's IFRS 9 based allowance for impairment policy and compared it with the requirements of IFRS 9; • Obtained an understanding of the design and tested the operating effectiveness of relevant controls over impairment model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and management assumptions; • Evaluated the Company's key judgments and estimates made in the impairment computation and involved specialists to assist in evaluating the judgments and estimates relating to probability of default, macro-economic variables and recovery rates; • For a sample of exposures, we performed procedures to evaluate: <ul style="list-style-type: none"> - Appropriateness of exposure at default, probability of default and loss given default in the calculation of impairment; - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Company's staging; and - Overlays considered by the management in view of the ongoing Covid-19 pandemic; and - Impairment calculation • Checked the completeness of the investment in finance debtors (including off balance sheet items) in the impairment calculation as of 31 December 2021. We understood the methodology and tested the mathematical integrity of the models;



Independent Auditor's Report to the Shareholders of United Finance Company SAOG (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Determination of impairment on instalment finance debtors (continued)

Key audit matters

The accounting policies relating to estimating impairment on instalment finance debtors, critical accounting estimates and judgements, the disclosures relating to the impairment on instalment finance debtors associated with credit risk and the effects of Covid-19 pandemic are set out in notes 3, 4, 13 and 30 to the financial statements.

How our audit addressed the key audit matters

- Checked the consistency of various inputs and assumptions used by the Company's management to determine the impairment; and
- Considered the adequacy of the disclosures in the financial statements in relation to impairment on instalment finance debtors and other financial assets subject to credit risk as required under IFRS 9.

Other information included in the Company's 2021 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 2021 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2021 Annual Report after the date of our auditor's report:

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

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

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

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

Independent Auditor's Report to the Shareholders of United Finance Company SAOG (continued)



Report on the audit of the financial statements (continued)

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.

Independent Auditor's Report to the Shareholders of United Finance Company SAOG (continued)



Report on the audit of the financial statements (continued)

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

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

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

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

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

Report on other legal and regulatory requirements

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

Mohamed Al Qurashi

Muscat

Date 15 March 2022

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2021

	Notes	2021 R0	2020 R0
Instalment finance income	5	8,191,013	7,513,942
Interest expense	6	(1,940,915)	(2,517,391)
Net instalment finance income		6,250,098	4,996,551
Other income	7	536,306	463,928
Operating expenses	8	(3,069,545)	(2,951,965)
Depreciation	9	(95,004)	(100,237)
Allowance for expected credit losses	13	(1,302,729)	(1,495,288)
Profit before tax		2,319,126	912,989
Income tax expense	10	(405,385)	(136,948)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,913,741	776,041
Basic and diluted earnings per share	23	0.005	0.002

The attached notes 1 to 31 form part of these financial statements.

Statement of financial position

at 31 December 2021

	Notes	2021 RO	2020 RO
ASSETS			
Property and equipment	9	2,330,284	2,389,523
Deferred tax asset	10	16,923	16,923
Deposit with the Central Bank of Oman	11	250,000	250,000
Investment securities	12	554,150	554,150
Instalment finance debtors	13	80,301,718	85,315,987
Other receivables and prepaid expenses	14	106,977	139,563
Cash and cash equivalents	15	896,294	707,594
TOTAL ASSETS		84,456,346	89,373,740
EQUITY			
Share capital	16	34,914,441	34,914,441
Share premium reserve	17	528,402	528,402
Legal reserve	18(a)	5,091,813	4,900,439
Special reserve	18(b)	2,368,989	2,368,989
Foreign currency reserve	18(c)	-	294,514
Impairment reserve	18(d)	1,911,736	1,911,736
Retained earnings		2,510,743	493,862
Total equity		47,326,124	45,412,383
LIABILITIES			
Borrowings	20	27,947,227	36,675,049
Corporate deposits	21	4,000,000	4,000,000
Creditors and other payables	22	4,820,934	3,199,975
Taxation	10	362,061	86,333
Total liabilities		37,130,222	43,961,357
TOTAL EQUITY AND LIABILITIES		84,456,346	89,373,740
NET ASSETS PER SHARE	24	0.136	0.130

The financial statements were approved and authorised for issue by the Board of Directors on 30 January 2022 and were signed on their behalf by:



Chairman



Director



Chief Executive Officer

The attached notes 1 to 31 form part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2021

	Share capital RO	Share premium reserve RO	Legal reserve RO	Special reserve RO	Foreign currency reserve RO	Impairment reserve RO	Retained earnings RO	Total RO
At 1 January 2020	34,914,441	528,402	4,822,835	2,368,989	294,514	1,036,092	671,069	44,636,342
Profit and total comprehensive income for the year	-	-	-	-	-	-	776,041	776,041
Transfer to impairment reserve						875,644	(875,644)	-
Transfer to legal reserve	-	-	77,604	-	-	-	(77,604)	-
At 1 January 2021	34,914,441	528,402	4,900,439	2,368,989	294,514	1,911,736	493,862	45,412,383
Profit and total comprehensive income for the year	-	-	-	-	-	-	1,913,741	1,913,741
Transfer to impairment reserve								
Transfer from foreign currency reserve	-	-	-	-	(294,514)	-	294,514	-
Transfer to legal reserve	-	-	191,374	-	-	-	(191,374)	-
At 31 December 2021	34,914,441	528,402	5,091,813	2,368,989	-	1,911,736	2,510,743	47,326,124

The attached notes 1 to 31 form part of these financial statements.

Statement of cash flows

For the year ended 31 December 2021

	Notes	2021 RO	2020 RO
Profit before tax		2,319,126	912,989
Adjustments for:			
Depreciation	9	95,004	100,237
Net gain on disposal of property and equipment	-	(15,248)	
Allowance for expected credit losses	13	1,302,729	1,495,288
Accruals for end of service benefits	22.1	36,208	42,832
Operating profit before working capital changes		3,753,067	2,536,098
Instalment finance debtors:			
Disbursements		(37,822,944)	(25,406,182)
Principal repayments received		41,534,485	37,058,179
Other receivables and prepayments		32,586	(19,835)
Creditors and other payables		1,645,862	(2,039,775)
End of service benefits paid	22.1	(61,112)	(66,859)
Income taxes paid	10	(129,657)	(566,061)
Net cash flows from operating activities		8,952,287	11,495,565
Investing activities			
Purchase of property and equipment	9	(35,765)	(69,487)
Proceeds from sale of property and equipment		-	15,250
Net cash flows used in investing activities		(35,765)	(54,237)
Financing activities			
Long-term loans received	20	7,950,000	26,150,000
Long-term loans repaid	20	(19,570,834)	(29,534,731)
Net movement in short-term loans	20	3,500,000	(5,350,000)
Net movement in corporate deposits	21	-	(3,000,000)
Net cash flows used in financing activities		(8,120,834)	(11,734,731)
Net change in cash and cash equivalents		795,688	(293,403)
Cash and cash equivalents at the beginning of the year		100,606	394,009
Cash and cash equivalents at the end of the year	15	896,294	100,606

The attached notes 1 to 31 form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2021

1. Legal status and principal activities

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

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

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these financial statements.

New and amended standards and interpretations

The Company has adopted the requirements of ‘Interest Rate Benchmark Reform- Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2) which is effective for annual periods beginning on or after 01 January 2021 with earliest adoption permitted. This had resulted in additional disclosures as described below:

IBOR reform Phase 2

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk free rate (RFR).

Changes to the basis for determining contractual cashflows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Company’s hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Company to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and/ or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness, the Company may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Company may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application. This new standard has no significant impact to the Company, since the Company has only fixed interest commitments and has no hedging relationships for the year ended 31 December 2021.

Notes to the financial statements (continued)

For the year ended 31 December 2021

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

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

The Company has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective in these financial statements. The Company intends to adopt these standards, if applicable, when they become effective.

- IFRS 17 – Insurance contracts
- IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for de-recognition of financial liabilities
- Definition of Accounting Estimates - Amendments to IAS 8
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company’s accounting policy disclosures.

3. Significant accounting policies

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

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financing Reporting Interpretation Committee (IFRIC) of the IASB, relevant requirements of the Commercial Companies Law, as amended, Capital Market Authority and the applicable regulations of the Central Bank of Oman (CBO) of the Sultanate of Oman.

Basis of preparation

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. In the process of applying the Company’s accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements as disclosed in note 4.

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Foreign currency transactions

Functional and presentation currency

The accounting records are maintained in Rial Omani (RO) which is the functional and presentation currency for these financial statements.

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.

Recognition of interest income and expenses

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Recognition of interest income and expenses (continued)

Calculation of interest income and expense

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

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

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

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

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

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

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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Property and equipment

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

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

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

Financial assets and financial liabilities

i) Recognition and initial measurement

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

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

ii) Classification

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

ii) Classification (continued)

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

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

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

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

Business model assessment

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

ii) Classification (continued)

Business model assessment (continued)

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

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

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

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

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

Investment securities

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

- equity investment securities designated as at FVOCI.

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

ii) Classification (continued)

Reclassifications

Financial assets

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

Financial liabilities

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

Trade and settlement date accounting

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

iii) De-recognition

De-recognition of financial assets

A financial asset (in whole or in part) is de-recognised where:

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

Instalment finance debtors

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

(v) Impairment

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

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

No impairment loss is recognised on equity investments.

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(v) Impairment (continued)

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

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

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

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(v) Impairment (continued)

Restructured financial assets (continued)

- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

(v) Impairment (continued)

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

Cash and cash equivalents

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

Borrowings and corporate deposits

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 and its amendments. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in creditors and other payables in the statement of financial position.

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

Creditors and other payables

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

Provisions

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

Financial guarantees

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

Dividend distribution

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

Segment reporting

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Earnings per share

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

Fair value estimation

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

Directors' remuneration

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

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees in compliance with applicable regulations.

Offsetting

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

Leases

The Company as lessee

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Leases (continued)

The Company as lessee (continued)

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. Significant accounting policies (continued)

Leases (continued)

The Company as lessee (continued)

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

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

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

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

The Company as lessor

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

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

4. Critical accounting estimates and judgements

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

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

Business models and SPPI assessment

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

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 30 to the financial statements, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

Detailed information about the judgements and estimates made by the Company in the above areas is set out in note 30 to the financial statements.

Notes to the financial statements (continued)

For the year ended 31 December 2021

4. Critical accounting estimates and judgements (continued)

Allowance for expected credit losses– Stage 3 loans

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

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

Income tax

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

Fair value of financial instruments

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

Going concern

The Company's management has made an assessment of its ability to continue as going concern and is satisfied that it has the resources to continue in business for foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Notes to the financial statements (continued)

For the year ended 31 December 2021

5. Instalment finance income

	2021 RO	2020 RO
Interest income on instalment finance debtors	8,191,013	7,513,942
	8,191,013	7,513,942

Included in interest income on instalment finance debtors are the corresponding adjustment to the amounts recorded in the statement of financial position, reflecting changes to the Company's EIR assumptions, incorporating the characteristics, and expected behaviour of the balances

6. Interest expense

	2021 RO	2020 RO
Interest expense on borrowed funds	1,940,915	2,517,391
	1,940,915	2,517,391

7. Other income

	2021 RO	2020 RO
Bad debts recovered	159,279	117,513
Documentation fees	107,922	81,018
Insurance commission income	92,212	89,802
Penalties charged	73,168	64,178
Foreclosure charges	58,549	50,075
Dividend income	40,645	40,963
Profit on sale of assets	-	15,248
Others	4,531	5,131
	536,306	463,928

Notes to the financial statements (continued)

For the year ended 31 December 2021

8. Operating expenses

	2021 RO	2020 RO
Staff costs (note 8.1)	2,094,307	2,007,041
Repairs and maintenance	184,880	187,583
Communication and traveling	156,260	180,547
Insurance	121,329	133,618
Statutory and legal expenses	78,152	58,611
Directors' sitting fees (note 26)	70,000	70,900
Bank charges	65,747	57,042
Fees and charges	64,440	41,754
Rent	47,878	59,040
Utilities	28,000	19,876
Advertising and business promotion expenses	26,536	11,264
Others	132,016	124,689
	3,069,545	2,951,965

8.1 Staff costs

	2021 RO	2020 RO
Wages and salaries	1,727,668	1,703,452
Other benefits	209,543	148,327
Contributions towards the PASI	120,888	112,431
End of service benefits (note 22.1)	36,208	42,832
	2,094,307	2,007,041

Notes to the financial statements (continued)

For the year ended 31 December 2021

9. Property and equipment

	Land RO	Buildings RO	Motor vehicles RO	Furniture and office equipment RO	Total RO
Cost					
1 January 2020	1,969,215	769,966	44,500	1,238,802	4,022,483
Additions	-	-	-	69,487	69,487
Disposals	-	-	(44,500)	-	(44,500)
1 January 2021	1,969,215	769,966	-	1,308,289	4,047,470
Additions	-	-	-	35,765	35,765
31 December 2021	1,969,215	769,966	-	1,344,054	4,083,235
Depreciation					
1 January 2020	-	483,756	44,498	1,073,954	1,602,208
Charge for the year	-	38,490	-	61,747	100,237
Disposals	-	-	(44,498)	-	(44,498)
1 January 2021	-	522,246	-	1,135,701	1,657,947
Charge for the year	-	38,491	-	56,513	95,004
31 December 2021	-	560,737	-	1,192,214	1,752,951
Carrying value					
31 December 2021	1,969,215	209,229	-	151,840	2,330,284
31 December 2020	1,969,215	247,720	-	172,588	2,389,523

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. There are no breaches of covenants during the current year.

Notes to the financial statements (continued)

For the year ended 31 December 2021

10. Taxation

Charge in the statement of comprehensive income is as follows:

	2021 RO	2020 RO
Statement of comprehensive income:		
Tax charge:		
Current tax	347,870	139,973
Adjustment in respect of current income tax of prior years	57,515	-
Deferred tax	-	(3,025)
	405,385	136,948

	2021 RO	2020 RO
Breakup of tax liability and deferred tax asset are as follows:		
Current liability		
Current year	347,870	139,973
Adjustment in respect of current income tax of prior years	14,191	(53,640)
	362,061	86,333
Deferred tax asset		
At 1 January	16,923	13,898
Movement during the year	-	3,025
At 31 December	16,923	16,923
The deferred tax asset comprises of the following temporary differences		
Depreciation on property and equipment	16,923	16,923

Notes to the financial statements (continued)

For the year ended 31 December 2021

10. Taxation (continued)

The reconciliation of the tax on accounting profit at the applicable rate of 15% (2020 : 15%) and the taxation charge in the financial statements is as follows:

	2021 RO	2020 RO
Profit before taxation	2,319,126	912,989
Taxation at the applicable tax rate	347,870	136,948
Add / (less) tax effect of:		
Adjustment in respect of current income tax of prior years	57,515	-
Tax expense	405,385	136,948
The movement in the current tax liability is as follows:		
At 1 January	86,333	512,421
Charge for the year	405,385	139,973
Paid during the year	(129,657)	(566,061)
At 31 December	362,061	86,333

For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. The adjustments are based on the current understanding of the existing tax laws, regulations and practices. The Company's tax assessments have been agreed with the tax authorities up to tax year 2017.

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 Instalment finance business within the Sultanate of Oman and settles all outstanding obligations and claims arising from that business. During the year, the deposit earned interest at the rate of 1.5 % (2020 : 1.5%) per annum. This balance is subject to credit risk and are subject to expected credit loss measurement. Please refer note 30.

Notes to the financial statements (continued)

For the year ended 31 December 2021

12. Investment securities

	2021 RO	2020 RO
Al-Soor International Holding Company (Kuwait)	554,149	554,149
National Bureau of Commercial Information	1	1
	554,150	554,150

These represent unquoted investments classified as fair value through other comprehensive income. The fair value of investment in the unquoted security (Al Soor International Holding Company) was performed as of 31 December 2021 by Global Financial Investment Holding SAOG (the majority shareholder of the Company). The valuer has appropriate qualification and recent experience in the fair value assessment of similar securities. The fair value of unquoted security was determined based on discounted cash flow method and income approach method (Level 3 fair value hierarchy).

13. Instalment finance debtors

All debts are due from individuals, partnership firms and corporate bodies operating within the Sultanate of Oman. The maturity profile of debts outstanding at the reporting date is disclosed in note 30 to the financial statements.

Instalment finance debtors arising from financing activities

	2021 RO	2020 RO
Gross Instalment finance debtors	111,394,802	115,206,549
Unearned finance income	(13,192,767)	(12,945,440)
Net Instalment finance debtors	98,202,035	102,261,109
Debt factoring activity debtors	330,756	897,671
	98,532,791	103,158,780
Less: Allowance for expected credit losses	(15,345,202)	(14,042,473)
Less: Unrecognised contractual income	(2,885,871)	(3,800,320)
	80,301,718	85,315,987

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

13. Instalment finance debtors (continued)

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

	Up to 1 year RO	1 to 5 years RO	Above 5 years RO	Total RO
At 31 December 2021				
Gross Instalment finance debtors finance and debt factoring activities debtors	54,704,523	54,676,628	2,344,407	111,725,558
Instalment finance and debt factoring activities debtors net of unearned interest	49,229,775	47,171,163	2,131,853	98,532,791
At 31 December 2020				
Gross Instalment finance debtors finance and debt factoring activities debtors	56,489,517	57,368,551	2,246,152	116,104,220
Instalment finance and debt factoring activities debtors net of unearned interest	50,897,589	50,138,788	2,122,403	103,158,780

Movement in allowance for expected credit losses

The movement in the allowance for expected credit losses and reserved interest for the year was as follows:

	ECL RO	Reserve Interest RO	Total RO
At 1 January 2021	14,042,473	3,800,320	17,842,793
Charged during the year	4,537,026	574,285	5,113,962
Released during the year	(3,234,297)	(1,488,734)	(4,725,682)
At 31 December 2021	15,345,202	2,885,871	18,231,073
At 1 January 2020	14,081,921	3,319,184	17,401,105
Charged during the year	3,152,607	821,113	3,973,720
Released during the year	(1,657,319)	(206,129)	(1,863,448)
Written off during the year	(1,534,736)	(133,848)	(1,668,584)
At 31 December 2020	14,042,473	3,800,320	17,842,793

Contractual interest is not recognised by the Company so as to comply with the rules, regulations and guidelines issued by Regulators against instalment finance contract receivables from the month in which the receivables are impaired i.e. overdue by more than 89 days. As at 31 December 2021, the total balance of finance debtors on which interest has not been recognised amounted to RO 26.29 million (2020: RO 27.31 million).

Notes to the financial statements (continued)

For the year ended 31 December 2021

13. Instalment finance debtors (continued)

Movement in unearned finance income

	2021 RO	2020 RO
Opening balance	12,945,440	15,617,543
Addition during the year	8,067,538	5,799,163
Interest accrued during the year	(7,820,211)	(8,471,266)
Closing balance	13,192,767	12,945,440

Movement in Instalment finance debtors and expected credit losses

The table below gives the movement in Instalment finance debtors and expected credit losses for the year ended 31 December 2021:

Instalment finance debtors	Stage 1 RO	Stage 2 RO	Stage 3 RO	Total RO
As at 01 January 2021	68,308,871	7,543,560	27,306,349	103,158,780
Additions	37,822,945	-	-	37,822,945
Repayment	(38,542,474)	(613,285)	(3,293,175)	(42,448,934)
Transfer between stages				
Stage 1	(4,031,022)	2,034,903	1,996,119	-
Stage 2	4,767,036	(6,461,484)	1,694,448	-
Stage 3	1,242,288	172,580	(1,414,868)	-
As at 31 December 2021	69,567,644	2,676,274	26,288,873	98,532,791

Instalment finance debtors	Stage 1 RO	Stage 2 RO	Stage 3 RO	Total RO
As at 01 January 2020	79,807,818	9,297,412	26,759,147	115,864,377
Additions	25,406,182	-	-	25,406,182
Repayment	(31,439,597)	(1,601,189)	(3,402,409)	(36,443,195)
Amounts written off	-	(116,091)	(1,552,494)	(1,668,584)
Transfer between stages				
Stage 1	(8,827,777)	6,551,461	2,276,316	-
Stage 2	3,093,605	(6,796,366)	3,702,761	-
Stage 3	268,641	208,331	(476,972)	-
As at 31 December 2020	68,308,871	7,543,560	27,306,349	103,158,780

Notes to the financial statements (continued)

For the year ended 31 December 2021

13. Instalment finance debtors (continued)

Expected credit losses	Stage 1 RO	Stage 2 RO	Stage 3 RO	Total RO
As at 01 January 2021	603,648	286,553	16,952,592	17,842,793
Net charge/ (release) in ECL	890,188	471,841	(973,749)	388,280
Transfer between stages				
Stage 1	(45,680)	23,467	22,213	-
Stage 2	110,933	(225,387)	114,454	-
Stage 3	215,984	18,994	(234,978)	-
As at 31 December 2021	1,775,073	575,468	15,880,532	18,231,073

Expected credit losses	Stage 1 RO	Stage 2 RO	Stage 3 RO	Total RO
As at 01 January 2020	146,496	949,929	16,304,680	17,401,105
Net charge/ (release) in ECL	208,877	(5,014)	1,772,561	1,976,424
Amounts written off	-	(114,526)	(1,420,210)	(1,534,736)
Transfer between stages				
Stage 1	(36,663)	24,803	11,860	-
Stage 2	242,234	(626,139)	383,905	-
Stage 3	42,704	57,500	(100,204)	-
As at 31 December 2020	603,648	286,553	16,952,592	17,842,793

14. Other receivables and prepaid expenses

	2021 RO	2020 RO
Prepaid expenses	22,275	24,465
Advances	83,355	41,431
Other receivables	1,347	73,667
	106,977	139,563

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. Cash and cash equivalents

	2021 RO	2020 RO
Bank and cash balances	896,158	707,458
Call deposits	136	136
Bank and cash balances	896,294	707,594
Less: bank overdrafts (note 20)	-	(606,988)
	896,294	100,606

Call deposits are placed with a commercial bank in the Sultanate of Oman with annual interest rate of 0.25% (2020: 0.25%) per annum. This balance is subject to credit risk and are subject to expected credit loss measurement which is not material to the financial statements as a whole. Please refer note 30.

16. Share capital

Share capital comprises 349,144,411 (2020 : 349,144,411) fully paid shares of RO 0.100 each. The Company's authorised share capital is RO 50,000,000 (2020 : RO 50,000,000).

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

	Number of shares		Percentage of holding (%)	
	2021	2020	2021	2020
Oman Hotels and Tourism Company SAOC	117,234,793	117,234,793	33.58	33.58
Global Financial Investments Holding SAOG	44,747,501	44,747,501	12.82	12.82
Al Saud Company Ltd - Ubar Financial Investment	26,331,515	26,331,515	7.54	7.54
Oman Holdings International Company SAOC	19,731,704	19,731,704	5.65	5.65

17. 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.

18. Reserves

(a) Legal reserve

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

18. Reserves (continued)

(b) Special reserve

As per policy, the Company creates a special reserve to the extent of 1% of loans disbursed each year till it reaches 2% of the net Instalment finance debtors. The special reserve is being maintained to cover any delinquencies arising from unforeseen contingencies. During 2021, the Company has not made any transfer to special reserve (2020: nil).

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

(c) Foreign currency reserve

The Company maintained an optional "Foreign currency reserve" to mitigate risk of un-favourable foreign exchange losses. The Company doesn't have foreign currency exposure over 40% of the net worth as on 31 December 2021. Therefore existing foreign currency reserve balances has been transferred to retained earnings on 31 December 2021.

(d) Impairment reserve

As per Circular BM 1149 of the guidelines issued by the Central Bank of Oman, the Company is required to create an impairment reserve in equity for an amount equal to excess of the provision for non-performing loans computed under CBO guidelines compared to provisions for expected credit losses computed under IFRS 9 on Instalment finance debtors. However, as per circular BSD/CB & FLCs/2021/002 dt. 18 March 2021 Central Bank of Oman has temporarily suspended two track approach/ parallel run for the computation of additional provisions as per CBO norms for the financial year 2021 only. Therefore, the Company has continued with impairment reserve of RO 1.91 million as at reporting date (2020 : RO 1.91 million).

19. Dividends proposed and paid

The Board of Directors have proposed a dividend of 3% for the year 2021 (2020: nil) subject to approval of the shareholders at the Annual General Meeting.

20. Borrowings

	2021 RO	2020 RO
Short-term loans	18,000,000	14,500,000
Current portion of long-term loans	9,869,449	16,484,723
Bank overdrafts (note 15)	-	606,988
Short-term borrowings	27,869,449	31,591,711
Non - current portion of term loans	77,778	5,083,338
	27,947,227	36,675,049

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. There are no breaches of covenants during the current year.

Notes to the financial statements (continued)

For the year ended 31 December 2021

20. Borrowings (continued)

The Company borrows from commercial banks and others at interest rates ranging from 4% to 6.5% (2020 : 4.75% to 6.75%) per annum. The interest rates on overdrafts and short-term loans are subject to change at the discretion of the banks, upon renewal of the facilities.

The balances of term loans mentioned above include term loans of RO 2,000,000 which was borrowed in USD equivalent amounts and is due to settled on 22 July 2022.

The fair value of the loans approximate their carrying value as these loans carries interest rates which approximates market interest rates. The related maturity profile and interest rate risk are shown in note 30 to the financial statements.

21. Corporate deposits

The Company accepts term deposits from corporate customers in accordance with the CBO guidelines for a minimum period of 6 months. The interest rate and maturity profile are given in note 30 to the financial statements. As on reporting date the company hold corporate deposit of RO 4 million (2020: RO 4 million) at interest rates ranging from 6.25% to 6.85% (2020: 5.15% to 6.85%)

22. Creditors and other payables

	2021 RO	2020 RO
Trade creditors	3,218,561	1,756,180
End of service benefits (note 22.1)	313,802	338,705
Accrued expenses	246,161	185,069
Advances received from customers	245,511	224,334
Interest payable	174,158	238,508
Others	622,741	457,179
	4,820,934	3,199,975

22.1 End of service benefits

	2021 RO	2020 RO
At 1 January	338,705	362,732
Charge for the year	36,208	42,832
Payments made during the year	(61,111)	(66,859)
At 31 December	313,802	338,705

Notes to the financial statements (continued)

For the year ended 31 December 2021

23. 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.

	2021 RO	2020 RO
Profit for the year	1,913,741	776,041
Weighted average number of shares	349,144,411	349,144,411
Basic earnings per share for the year	0.005	0.002

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

24. Net assets per share

The calculation of net assets per share is as below:

	2021 RO	2020 RO
Net asset value	47,326,124	45,412,383
Number of ordinary shares outstanding	349,144,411	349,144,411
Net asset per share	0.136	0.130

25. Segmental information

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

25. Segmental information (continued)

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 2021 is as follows:

31 December 2021	Corporate RO	Retail RO	Others (insurance and debt factoring) RO	Unallocated items RO	Total RO
Segmental revenues					
Instalment finance income	4,199,108	3,963,217	28,688	-	8,191,013
Interest expense	(989,867)	(951,048)	-	-	(1,940,915)
Net instalment finance income	3,209,241	3,012,169	28,688	-	6,250,098
Other income	-	-	93,887	442,419	536,306
Segmental expenses					
Operating expenses	(1,565,468)	(1,504,077)	-	-	(3,069,545)
Depreciation	-	-	-	(95,004)	(95,004)
Profit before tax and allowance for ECL	1,643,773	1,508,092	122,575	347,415	3,621,855
Allowance for expected credit losses	(648,686)	(654,043)	-	-	(1,302,729)
Segmental profit for the year before tax	995,087	854,049	122,575	347,415	2,319,126
Income tax expense	-	-	-	(405,385)	(405,385)
Segmental profit for the year	995,087	854,049	122,575	(57,970)	1,913,741
Total assets	35,771,011	44,530,707	-	4,154,628	84,456,346
Total liabilities	-	-	-	37,130,222	37,130,222

Notes to the financial statements (continued)

For the year ended 31 December 2021

25. Segmental information (continued)

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

26. Related parties

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

Transactions included in statement of profit or loss and comprehensive income are as follows:

	2021 RO	2020 RO
Directors' sitting fees (note 8)	70,000	70,900
Other related parties:		
Instalment finance income	200,497	121,499

Compensation of the key management personnel is as follows :

	2021 RO	2020 RO
Salaries and allowances	209,791	136,081
End of service benefits	9,291	5,658
	219,082	141,739

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

	2021 RO	2020 RO
Other related parties:		
Disbursements:	1,801,148	652,088
Other related parties:		
Collections:	879,288	508,910
Amounts due from related parties:		
Instalment finance debtors due	3,129,477	2,044,097

Notes to the financial statements (continued)

For the year ended 31 December 2021

26. Related parties (continued)

The provision pertaining to the above balances have been covered as part of the expected credit loss measurement. Please refer note 30.

	2021 RO	2020 RO
Amounts due to related parties:		
Lease financing	591,772	469,361
Amount due	81,672	31,000

As per Circular BM 977 clause 15.4, the company has waived off RO 2,782 to one of senior management employee on account of closing of a vehicle loan which was given to him under Own Your Vehicle Scheme which was latter on decided to withdraw by Board. The vehicle was sold off in second hand market and balance loan outstanding was been waived off by the Board of Directors. The waive off of this loan account was not on account of default and there was regular repayment of the loan.

27. Contingent liabilities

At 31 December 2021, there were contingent liabilities of RO 278,500 (2020 : RO 509,591) in respect of financial guarantees and letter of credit given to banks in the normal course of business on behalf of customers from which it is anticipated that no material liabilities will arise. Such guarantees and letter of Credit are covered by counter guarantees from the customers in addition to other securities.

Primary labour court has issued its verdict ordering to pay the end of service benefit to one of the ex-employee of the company, which has already been accrued in the Company's books of accounts and in an addition court also ordered to pay RO 25,550. The Company has filed an appeal before court.

28. Commitments

The Company has approved commitments to Customers as on 31 December 2021 amounting to RO 767,978 (31 December 2020: RO 820,253), which is contingent upon fulfilment of the terms and conditions attached thereto.

29. 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 2021 and 2020 are not significantly different to their carrying value at each of those dates.

Notes to the financial statements (continued)

For the year ended 31 December 2021

29. Fair value information (continued)

Fair value hierarchy

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

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

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

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

	Total RO	Level 1 RO	Level 2 RO	Level 3 RO
Expected credit losses				
31 December 2021				
Financial Instruments measured FVTOCI	554,150	-	-	554,150
31 December 2020				
Financial Instruments measured FVTOCI	554,150	-	-	554,150

During the year ended 31 December 2021 and 31 December 2020, there were no transfers between Level 1, Level 2 and Level 3 measurements.

30. Financial risk management

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

The Board of Directors sets the overall risk parameters and tolerances and the significant risk management parameters & associated policies. The Audit and Risk Committee of the Board reviews and reports to the Board of Directors on the Company's risk profile and risk taking activities. The Asset Liability Management committee (ALCO), chaired by the CEO reviews the risks associated to liquidity, foreign exchange risk & interest rate risk. Risk Management department on a quarterly basis provide detailed report to the Audit and Risk Committee covering all the aspects of Risk Management framework. The risk management control process is based on a detailed structure of policies, procedures and limits and comprehensive risk measurement and management systems for the control, monitoring and reporting of risks. Periodic reviews by the internal and external auditors and regulatory authorities subject the risk management processes to additional scrutiny that help to further strengthen the risk management environment.

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk

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

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

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is crucial for the Company's business; therefore management carefully manages its exposure to credit risk. Well defined policies and processes are in place at both the business units and corporate level that are intended to ensure that risks are assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counter party, and portfolio levels. Overall exposures are also evaluated to ensure a broad diversification of credit risk. The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography. The Company attempts to control credit risk through continuously reviewing and improving its credit policies to meet the demanding needs of market, setting and monitoring credit exposures, limiting transactions with specific counter parties and assessing their creditworthiness and restricting exposure to any particular industry or individuals or groups of customers in a particular region / location. In addition, to mitigate the risk of unforeseen eventualities, adequate security cover is maintained over the assets of the borrowers. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the Company's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Company does not occupy repossessed properties for business use.

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Maximum exposure to credit risk

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

	Gross maximum exposure	
	2021 RO	2020 RO
Instalment finance debtors	98,532,791	103,158,780
Bank balances and deposits (including deposit with CBO)	1,063,376	915,099
Other receivables	1,346	73,667
Total credit risk exposure	99,597,513	104,147,546

Collateral held and other credit enhancement

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

Expected credit loss measurement

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Expected credit loss measurement (continued)

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

The ageing of gross instalment finance debtors that were not impaired at the reporting date is as follows:

	2021 RO	2020 RO
Neither past due nor impaired	65,958,607	70,375,734
Past due 1-30 days	5,006,178	3,573,164
Past due 31-60 days	1,109,973	1,596,172
Past due 61-89 days	169,160	307,361
	72,243,918	75,852,431

The total impaired assets as at 31 December 2021 amounts to RO 26.29 million (2020: RO 27.3 million).

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

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

Generating the term structure of PD

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Generating the term structure of PD (continued)

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

Significant increase in credit risk (SICR)

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

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

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

Further, as per CBO guidance BM 1149 circular, in respect of corporate borrowers where the exposure is R0 500,000 or more, the Company also considers the occurrence of any one or more of the following events as evidence of significant increase in credit risk:

- Inadequate or unreliable financial and other information such as unavailability of audited financial statements.
- Non-cooperation by the borrower in matters pertaining to documentation.
- Borrower is the subject of litigation by third parties that may have a significant impact on his financial position.
- Frequent changes in senior management.
- Intra-group transfer of funds without underlying transactions.
- Deferment / delay in the date for commencement of commercial operations by more than one year.
- Modification of terms resulting in concessions granted to the borrower including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, FLCs may be guided by the extant instructions of CBO in regard to treating an account as restructured.

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Significant increase in credit risk (SICR) (continued)

- A fall of 25 percent or more in the turnover or in the earnings before interest and taxes (EBIT) as compared to the previous year.
- Erosion in net worth by more than 20 percent as compared to the previous year end coupled with an increase in leverage.
- A fall in the debt service coverage ratio to below 1.

Definition of default and credit-impaired assets

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

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

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

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

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

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

Measuring ECL - explanation of inputs, assumptions and estimation techniques

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Measuring ECL - explanation of inputs, assumptions and estimation techniques (continued)

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

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

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

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Forward-looking information incorporated in the ECL models

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

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

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

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

	2022	2023	2024	2025	2026
GDP growth	2.9%	4.2%	2.9%	3.3%	2.6%

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

Sensitivity analysis

Set out below are the changes to the ECL as at 31 December 2021 that would result from reasonably possible changes in parameters from the actual assumptions used in the Company's economic variable assumptions.

Retail / corporate portfolios

	[+1%] RO	No change RO	[-1%] RO
GDP growth	18,082,122	18,231,073	18,407,016

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

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

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

Credit quality analysis

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

	2021				2020
	ECL Staging				
	Stage 1	Stage 2	Stage 3		
	12-month	Lifetime ECL	Lifetime		
	ECL	not credit-	ECL credit-	Total	Total
	RO	impaired	impaired	RO	RO
		RO	RO		
Instalment finance debtors:					
Standard	69,567,644	2,676,274	-	72,243,918	75,852,431
Special mention	-	-	2,426,515	2,426,515	2,441,763
Substandard	-	-	1,001,505	1,001,505	1,616,515
Doubtful	-	-	689,151	689,151	1,284,023
Loss	-	-	22,171,702	22,171,702	21,964,048
	69,567,644	2,676,274	26,288,873	98,532,791	103,158,780
Allowance for ECL	(1,772,085)	(575,468)	(15,880,532)	(18,228,085)	(17,840,367)
Carrying amount	67,795,588	2,100,806	10,408,342	80,304,706	85,318,413
Undrawn Commitments	767,978	-	-	767,978	820,453
Allowance for ECL	(2,988)	-	-	(2,988)	(2,426)
Carrying amount in statement of financial position	67,792,570	2,100,806	10,408,342	80,301,718	85,315,987

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Credit quality analysis (continued)

Amounts arising from ECL

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

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

Write-off policy

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

The Company may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2021 was amounted to RO nil (2020: 1.67 million).

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)**Credit risk (continued)****Comparison of provision held as per IFRS 9 and required as per CBO norms****31 December 2021**

Assets classification as per CBO Norms	Assets classification as per IFRS 9 RO'000	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required, and provision held RO'000	Net carrying amount as per CBO RO'000	Net carrying amount as per IFRS 9 RO'000	Interest recognized as per IFRS 9 norms RO'000	Reserve interest as per CBO norms RO'000
Standard	Stage 1	69,568	595	1,722	(1,127)	68,920	67,793	5,231	53
	Stage 2	2,676	170	542	(372)	2,473	2,101	191	33
	Stage 3	-	-	-	-	-	-	-	-
		72,244	765	2,264	(1,499)	71,393	69,894	5,422	86
Special mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,427	193	395	(202)	2,190	1,988	193	44
		2,427	193	395	(202)	2,190	1,988	193	44
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,001	239	233	6	715	721	69	47
		1,001	239	233	6	715	721	69	47
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	689	290	138	152	357	509	36	42
		689	290	138	152	357	509	36	42
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	22,172	16,651	12,315	4,336	2,854	7,190	272	2,667
		22,172	16,651	12,315	4,336	2,854	7,190	272	2,667
Total	Stage 1	69,568	595	1,722	(1,127)	68,920	67,793	5,231	53
	Stage 2	2,676	170	542	(372)	2,473	2,101	191	33
	Stage 3	26,289	17,373	13,081	4,292	6,116	10,408	570	2,800
		98,533	18,138	15,345	2,793	77,509	80,302	5,992	2,886

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

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

31 December 2020

Assets classification as per CBO Norms	Assets classification as per IFRS 9 RO'000	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required, and provision held RO'000	Net carrying amount as per CBO RO'000	Net carrying amount as per IFRS 9 RO'000	Interest recognized as per IFRS 9 norms RO'000	Reserve interest as per CBO norms RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(4)-(10)	(8)=(3)-(5)-(10)	(9)	(10)
Standard	Stage 1	68,309	283	604	(321)	68,026	67,705	5,457	-
	Stage 2	7,544	11	287	(276)	7,533	7,257	605	-
	Stage 3	-	-	-	-	-	-	-	-
		75,853	294	891	(597)	75,559	74,962	6,062	-
Special mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,442	124	124	-	2,156	2,156	142	162
		2,442	124	124	-	2,156	2,156	142	162
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,616	374	440	(66)	1,117	1,051	57	125
		1,616	374	440	(66)	1,117	1,051	57	125
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,284	526	585	(59)	610	551	27	148
		1,284	526	585	(59)	610	551	27	148
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	21,964	14,974	12,003	2,971	3,625	6,596	14	3,365
		21,964	14,974	12,003	2,971	3,625	6,596	14	3,365
Total	Stage 1	68,309	283	604	(321)	68,026	67,705	5,457	-
	Stage 2	7,544	11	287	(276)	7,533	7,257	605	-
	Stage 3	27,306	15,998	13,152	2,846	7,508	10,354	240	3,800
		103,159	16,292	14,043	2,249	83,067	85,316	6,302	3,800

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

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

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

Loans with renegotiated terms

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

Renegotiated finance debtors as at 31 December 2021 was RO 2.63 million (2020 : RO 2.68 million). Out of these finance debtors amounting to RO 1.96 million (2020 : RO 1.94 million) were impaired at the time of renegotiation.

Restructured accounts

31 December 2021

Assets classification as per CBO Norms	Assets classification as per IFRS 9 RO'000	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required, and provision held RO'000	Net carrying amount as per CBO RO'000	Net carrying amount as per IFRS 9 RO'000	Interest recognized as per IFRS 9 norms RO'000	Reserve interest as per CBO norms RO'000
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(4)-{10}	(8)=(3)-(5)-{10}	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,626	1,106	951	155	1,274	1,429	73	246
		2,626	1,106	951	155	1,274	1,429	73	246
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,626	1,106	951	155	1,274	1,429	73	246
		2,626	1,106	951	155	1,274	1,429	73	246

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

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

Restructured accounts (continued)

31 December 2020

Assets classification as per CBO Norms	Assets classification as per IFRS 9 RO'000	Gross carrying amount RO'000	Provision required as per CBO Norms RO'000	Provisions held as per IFRS 9 RO'000	Difference between CBO provision required, and provision held RO'000	Net carrying amount as per CBO RO'000	Net carrying amount as per IFRS 9 RO'000	Interest recognized as per IFRS 9 norms RO'000	Reserve interest as per CBO norms RO'000	
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(4)-(10)	(8)=(3)-(5)-(10)	(9)	(10)	
Classified as performing										
	Stage 1	-	-	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	-	-	
	Stage 3	-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	
Classified as non-performing										
	Stage 1	-	-	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	-	-	
	Stage 3	2,692	1,160	1,190	(30)	1,034	1,004	7	498	
		2,692	1,160	1,190	(30)	1,034	1,004	7	498	
Total										
	Stage 1	-	-	-	-	-	-	-	-	
	Stage 2	-	-	-	-	-	-	-	-	
	Stage 3	2,692	1,160	1,190	(30)	1,034	1,004	7	498	
		2,692	1,160	1,190	(30)	1,034	1,004	7	498	

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Impairment allowance and loss as at 31 December 2021 and 2020

	As per CBO Norms		As per IFRS 9		Difference	
	2021	2020	2021	2020	2021	2020
Impairment loss charged to profit and loss account (RO)	1,847	2,525	1,303	1,495	(544)	(1,030)
Provisions required as per CBO norms / held as per IFRS 9 (RO)*	21,024	20,092	18,231	17,843	(2,793)	(2,249)
Gross NPL ratio	26.68%	26.47%	26.68%	26.47%	-	-
Net NPL ratio	6.79%	9.04%	10.03%	11%	(3.24%)	(2%)

* Provisions required as per CBO norms and provisions held as per IFRS 9 disclosed above for the year ended 31 December 2021 and 31 December 2020 include reserve interest.

Concentrations of credit risk

Concentration of risk is managed by client/counterparty and by industry sector exposures. There is no significant credit exposure relating to instalment finance debtors to any single counterparty as of 31 December 2021. An industry sector analysis of the Company's Instalment finance debtors (net) before taking into account collateral held is as follows:

	2021 RO	2020 RO
Personal / car loans	27,008,314	27,507,802
Corporate loan:		
- Services	24,806,851	25,429,564
- Construction contracts	13,850,961	16,434,058
- Construction equipment	5,310,386	5,788,697
- Manufacturing	6,695,271	6,968,519
- Trading	1,969,407	1,777,946
- Other	660,528	1,409,401
	80,301,718	85,315,987

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

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

	2021 RO	2020 RO
1 to 89 days	6,285,311	5,476,697

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

	2021 RO	2020 RO
90 to 364 days	4,117,171	5,342,301
365 days and above	22,171,702	21,964,048
	26,288,873	27,306,349

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Outbreak of Coronavirus (COVID-19)

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

Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc (refer CBO circular no. BSD/CB/2020/001 and BDD/CBS/CB/FLCs/2021/3296 for further details on relaxations granted and extension thereof).

Impact of COVID-19 on the Company

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

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

Company's retail portfolio largely comprises of nationals employed in government and private sectors and hence this segment is expected to largely remain insulated from job cuts and salary reductions. Retail lending to private sector employees which forms a small proportion of total retail portfolio is expected to witness some impact in the short to medium term due to the pandemic and hence could lead to potential credit issues. The Company is fully committed to help its customers through this turbulent period as directed by the CBO.

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Outbreak of Coronavirus (COVID-19) (continued)

Impact of COVID-19 on the Company (continued)

The Company continues to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic. The Company continually reviews its precautionary and administrative measures in response to changes on the ground.

Impact on SICR

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

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

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

Impact on ECL

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Outbreak of Coronavirus (COVID-19) (continued)

Impact on ECL (continued)

Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2021 are set out as follows:

As on the reporting date the collective provision held by the Company through management overlays amounts to RO 1.65 million of total impairment based on latest available PD term structure and macro-economic forecasts. This is in addition to the existing ECL provision considered on a conservative practice to mitigate any unforeseen impacts in the portfolio. The Company will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

Post model adjustments and management overlays

Given the ever evolving nature of the current health and economic crisis, the Company's management is of the view that the forward looking macro-economic data and the PD term structures published by the economists and rating agencies during 2021 is yet to reasonably reflect the impact of the economic disruption caused by Covid-19 and also to fully factor in the financial intervention by the relevant state authorities.

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

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

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

Following are the scenario weightage considered by the Company:

- Scenario weightings for stage 1 & 2 of 70%, 20%, 10% for Base, Downside and Upside scenarios (31 December 2020: 70%, 20%, 10%)

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Credit risk (continued)

Stage-wise analysis of customers benefiting from payment deferrals

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

Loans and advances and acceptances	Stage 1 RO	Stage 2 RO	Stage 3 RO	Total RO
Total exposure to customers benefiting from payment deferrals	4,888,264	1,656,653	1,032,541	7,577,458
Total ECL on exposure to customers benefiting from payment deferrals	346,590	381,974	174,723	903,287

Market risk

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

Foreign exchange risk

Currency risk arises from the possibility of changes in the value of financial assets due to changes in the foreign currency rates. As there is an exchange parity agreement between Oman and the United States of America, the exchange rates have remained stable over the years.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Interest rate risk (continued)

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

31 December 2021	Effective interest-rate in % RO	0 - 6 Months RO	6 - 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Fixed rate or non interest sensitive RO	Total RO
Assets								
Investment securities		-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	1.5	-	-	-	-	-	250,000	250,000
Instalment finance debtors	9.1	15,477,128	12,986,630	17,566,061	13,345,595	20,926,304	-	80,301,718
Other receivables		-	-	-	-	-	106,976	106,976
Cash and cash equivalents		-	-	-	-	-	896,294	896,294
Property and equipment and other assets		-	-	-	-	-	2,347,207	2,347,207
TOTAL ASSETS		15,477,128	12,986,630	17,566,061	13,345,595	20,926,304	4,154,628	84,456,346
Equity and liabilities								
Borrowings	4.0-6.5	23,386,116	4,483,333	77,778	-	-	-	27,947,227
Corporate deposits*	6.25-6.85	2,000,000	2,000,000	-	-	-	-	4,000,000
Creditors and other payables		-	-	-	-	-	4,820,934	4,820,934
Equity		-	-	-	-	-	47,326,124	47,326,124
Taxation		-	-	-	-	-	362,061	362,061
TOTAL EQUITY AND LIABILITIES		25,386,116	6,483,333	77,778	-	-	52,509,119	84,456,346
Interest rate sensitivity gap		(9,908,988)	6,503,297	17,488,283	13,345,595	20,926,304	(48,354,491)	-
Cumulative gap		(9,908,988)	(3,405,691)	14,082,592	27,428,187	48,354,491	-	-

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Interest rate risk (continued)

31 December 2020	Effective interest-rate in % RO	0 - 6 Months RO	6 - 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Fixed rate or non interest sensitive RO	Total RO
Assets								
Investment securities	-	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	1.50	-	-	-	-	-	250,000	250,000
Instalment finance debtors	8.86	15,829,821	13,855,454	18,867,125	14,016,746	22,746,841	-	85,315,987
Other receivables	-	-	-	-	-	-	139,563	139,563
Cash and cash equivalents	0.25	136	-	-	-	-	707,458	707,594
Property and equipment and other assets	-	-	-	-	-	-	2,406,446	2,406,446
TOTAL ASSETS		15,829,957	13,855,454	18,867,125	14,016,746	22,746,841	4,057,617	89,373,740
Equity and liabilities								
Borrowings	4.75 - 6.75	25,594,482	5,997,229	5,083,338	-	-	-	36,675,049
Corporate deposits*		1,000,000	-	3,000,000	-	-	-	4,000,000
Creditors and other payables		-	-	-	-	-	3,199,975	3,199,975
Equity		-	-	-	-	-	45,412,383	45,412,383
Taxation		-	-	-	-	-	86,333	86,333
TOTAL EQUITY AND LIABILITIES		26,594,482	5,997,229	8,083,338	-	-	48,698,691	89,373,740
Interest rate sensitivity gap		(10,764,525)	7,858,225	10,783,787	14,016,746	22,746,841	(44,641,074)	-
Cumulative gap		(10,764,525)	(2,906,300)	7,877,487	21,894,233	44,641,074	-	-

* Corporate deposits are at market rates.

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Liquidity risk

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

The amounts disclosed in table below analyses the Company's financial instruments and other assets and liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying balances, as the impact of the discounting is not significant. The Company has unutilised credit facilities of RO 14.64 million (2020 : RO 6.53 million).

31 December 2021	0 - 6 Months RO	6 - 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Assets							
Investment securities	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	-	-	-	-	-	250,000	250,000
Instalment finance debtors	15,477,128	13,037,359	17,566,061	13,345,595	20,875,576	-	80,301,718
Other receivables and prepaid expenses	106,976	-	-	-	-	-	106,976
Cash and cash equivalents	896,294	-	-	-	-	-	896,294
Property and equipment and other assets	-	-	-	-	-	2,347,207	2,347,207
TOTAL ASSETS	16,480,398	13,037,359	17,566,061	13,345,595	20,875,576	3,151,357	84,456,346
Equity and liabilities							
Borrowings	23,386,116	4,483,333	77,778	-	-	-	27,947,227
Corporate deposits	2,000,000	2,000,000	-	-	-	-	4,000,000
Creditors and other payables	4,192,906	314,226	-	-	-	313,802	4,820,934
Equity	-	-	-	-	-	47,326,124	47,326,124
Taxation	-	-	-	-	-	362,061	362,061
TOTAL EQUITY AND LIABILITIES	29,579,022	6,797,559	77,778	-	-	48,001,987	84,456,346

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Liquidity risk (continued)

31 December 2021	0 - 6 Months RO	6 - 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Gap in maturity (excluding off balance sheet items)	(13,098,624)	6,239,800	17,488,283	13,345,595	20,875,576	(44,850,630)	-
Cumulative gap in maturity	(13,098,624)	(6,858,824)	10,629,459	23,975,054	44,850,630	-	-
Unearned finance income	2,898,991	2,575,757	3,739,705	2,201,921	1,776,392	-	13,192,766
Total assets (including off balance sheet items)	19,379,389	15,613,116	21,305,766	15,547,516	22,651,968	3,151,357	97,649,112
Liabilities off balance sheet							
Interest payable on loans	257,091	128,917	5,948	-	-	-	391,956
Contingent liabilities	278,500	-	-	-	-	-	278,500
Total equity and liabilities (including off balance sheet items)	30,114,613	6,926,476	83,726	-	-	48,001,987	85,126,802
Gap in maturity	(10,735,224)	8,686,640	21,222,040	15,547,516	22,651,968	(44,850,630)	12,522,310
Cumulative gap in maturity	(10,735,224)	(2,048,584)	19,173,456	34,720,972	57,372,940	12,522,310	-

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Liquidity risk (continued)

31 December 2020	0 - 6 Months RO	6 - 12 months RO	1 - 2 years RO	2 - 3 years RO	More than 3 years RO	Non-fixed maturity RO	Total RO
Assets							
Investment securities	-	-	-	-	-	554,150	554,150
Deposit with Central Bank of Oman	-	-	-	-	-	250,000	250,000
Instalment finance debtors	15,829,821	13,855,454	18,867,125	14,016,746	22,746,841	-	85,315,987
Other receivables and prepaid expenses	139,563	-	-	-	-	-	139,563
Cash and cash equivalents	707,594	-	-	-	-	-	707,594
Property and equipment and other assets	-	-	-	-	-	2,406,446	2,406,446
TOTAL ASSETS	16,676,978	13,855,454	18,867,125	14,016,746	22,746,841	3,210,596	89,373,740
Equity and liabilities							
Borrowings	25,594,482	5,997,229	5,083,338	-	-	-	36,675,049
Corporate deposits	1,000,000	-	3,000,000	-	-	-	4,000,000
Creditors and other payables	2,569,189	292,081	-	-	-	338,705	3,199,975
Equity	-	-	-	-	-	45,412,383	45,412,383
Taxation	-	-	-	-	-	86,333	86,333
TOTAL EQUITY AND LIABILITIES	29,163,671	6,289,310	8,083,338	-	-	45,837,421	89,373,740
Gap in maturity (excluding off balance sheet items)	(12,486,693)	7,566,144	10,783,787	14,016,746	22,746,841	(42,626,825)	-
Cumulative gap in maturity	(12,486,693)	(4,920,549)	5,863,238	19,879,984	42,626,825	-	-
Assets off balance sheet							
Unearned finance income	2,976,530	2,615,397	3,678,761	2,106,816	1,567,936	-	12,945,440
Total assets (including off balance sheet items)	19,653,508	16,470,851	22,545,886	16,123,562	24,314,777	3,210,596	102,319,180

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Liquidity risk (continued)

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

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 and retained earnings, and is measured at RO 47.33 million as at 31 December 2021 (2020 : RO 45.41 million).

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

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

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. Financial risk management (continued)

Capital management (continued)

During 2021 and 2020, the Company's strategy was to maintain the gearing and leverage ratios within 5 times of the equity. The gearing and leverage ratios at 31 December 2021 and 2020 were as follows:

	2021 RO	2020 RO
Total borrowings	31,947	40,675
Total outside liabilities	36,768	43,875
Total equity	47,326	45,412
Net worth (defined above)	39,865	38,143
Gearing ratio (times)	0.68	0.90
Leverage ratio (times)	0.922	1.15

31. Comparative figures

Certain corresponding figures for 2020 have been reclassified in order to conform to the presentation for the current year. Such reclassifications do not affect previously reported profit or equity.

