

**Notes to the financial statements
for the year ended 31 December 2016**

1. General

Muscat Finance SAOG (the Company) is an Omani Joint Stock Company established on 11 October 1987 and registered in the Sultanate of Oman. The Company is involved in the activity of instalment financing and leasing of vehicles and other assets, debt factoring, working capital and receivable financing activities. The Company derives all of its income from leasing, factoring and working capital funding within the Sultanate of Oman. The Company's shares are listed in the Muscat Securities Market.

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

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

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)****2.1 New and revised IFRSs 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 2016, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to IAS 12 <i>Income Taxes</i> relating to the recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> The interpretation addresses foreign currency transactions or parts of transactions where: <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary. 	1 January 2018
Amendments to IFRS 2 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> : Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

s2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

<p>Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9</p> <p>IFRS 7 <i>Financial Instruments: Disclosures</i> relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9</p> <p>IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014)</p> <p>IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.</p> <p>A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. The standard contains requirements in the following areas:</p> <ul style="list-style-type: none"> • Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised 	<p>When IFRS 9 is first applied</p> <p>When IFRS 9 is first applied</p> <p>1 January 2018</p>
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**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

The Board of directors anticipate that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the financial statements of the Company in the period of initial application.

IFRS 15 Revenue from Contracts with Customers

1 January 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 *Revenue from Contracts with Customers* to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and

1 January 2018

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

IFRS 16 Leases

1 January 2019

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

Effective date deferred indefinitely

The Board of directors anticipate that IFRS 15 and IFRS 9 will be adopted in the Company's financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Company's financial statements for the annual period beginning 1 January 2019. The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of revenue from contracts with customers and the Company's financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****3. Summary of 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 year presented, unless otherwise stated.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. The financial statements comply with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the disclosure requirements issued by the Capital Market Authority.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for derivative instruments, which are stated at fair value. The statement of financial position is presented in descending order of liquidity, as this presentation is more appropriate for the Company’s operations.

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

Vehicles and equipment

Items of vehicles and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of vehicles and equipment. All other expenditure is recognised in profit or loss as an expense as incurred. Depreciation assets is calculated using the straight line method to allocate their cost to their residual values over their estimated useful lives as follows:

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****3. Summary of significant accounting policies (continued)****Vehicles and equipment (continued)**

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to appropriate vehicles and equipment category and depreciated in accordance with the Company's policies.

Financial assets

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability. The Company classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any accumulated impairment losses. Loans and receivables comprise net investment in finance debtors, other receivables, statutory deposit and cash and bank balances.

Available-for-sale financial assets

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions

Available-for-sale financial assets are initially recognised at fair value including transaction

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****3. Summary of significant accounting policies (continued)****Financial assets (continued)***Available-for-sale financial assets (continued)*

The fair values of quoted investments are based on current bid prices. If the market for financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis making maximum use of market inputs and relying as little as possible on entity-specific inputs. On de-recognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within the other comprehensive income, is included in the profit or loss for the year

Derecognition of financial assets

A Financial asset (in whole or in part) is derecognized where:

- the right to receive cash flows from the asset have expired, or
- 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
- either (i) the Company has transferred substantially all the risks and rewards or 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.

Impairment of financial assets*Assets carried at amortised cost*

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

- significant financial difficulty of the obligor;

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Impairment of financial assets (continued)***Assets carried at amortised cost (continued)*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the financial assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The calculation of present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collaterals, whether or not foreclosure is probable.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance and the amount of the loss is recognised in the profit or loss.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows associated with the assets and the Company's historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data, including peer statistics, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a financial asset is uncollectible, it is written off against the related allowance for impairment. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised under 'other operating income' in the profit or loss.

Assets classified as available-for-sale

The Company assesses at the end of each reporting period whether there is objective evidence

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Impairment of financial assets (continued)***Assets classified as available-for-sale (continued)*

In the case if debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

Renegotiated installment finance debtors

The Company may restructure loans at the request of customers. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Derivative financial instruments and hedge accounting

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Derivative financial instruments and hedge accounting (continued)**

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

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the profit or loss within 'other operating income'.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.\

Borrowings

Borrowings which include corporate deposits and non-convertible bonds are recognised initially at fair value, net of transaction cost incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

End of service benefits and leave entitlements

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

Contributions to a defined contribution retirement plan for Omani employees in accordance

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Other liabilities**

Other liabilities 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 a present (legal or constructive) obligation arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

Revenue recognition

Assets owned by the Company and subject to finance leases are included in the financial statements as "Net investment in finance debtors" at an amount equivalent to the present value of the future minimum lease payments plus initial direct costs, discounted using the interest rate implicit in the lease, and the difference between the aggregate lease contract receivable and the cost of the leased assets plus initial direct costs is recorded as unearned lease finance income. Initial direct costs include amounts that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by sales and marketing teams.

Income from finance leases represents gross earnings on finance leases allocated to the period of the lease using the net investment method, which reflects a constant periodic rate of return. The lease finance income is recognised in the profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

Interest on factoring and working capital finance receivables is recognised using the effective

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****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.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discreet financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Company is engaged in leasing activities, all of which are carried out in the Sultanate of Oman. Although the Company has retail and corporate customers, the entire lease portfolio is managed internally as one business unit. All the Company's funding and costs are common and are not allocated between these two portfolios.

Foreign currency transactions*Functional and presentation currency*

These financial statements are presented in Rial Omani, which is the Company's functional currency and also in US Dollars for the convenience of the readers only. The US Dollar amounts, which are presented in these financial statements, have been translated from the Omani Rial amounts at an exchange rate of RO 0.385 to each US Dollar. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands, unless otherwise stated.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dated of the transactions. Foreign exchange gains and losses resulting from the prevailing at the dates of the transactions and from the translation at year-end

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Interest expense**

Interest expense is recognised on an accrual basis using effective interest method.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the Statement of profit or loss and other comprehensive income except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

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

Deferred tax is calculated on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefits will be realized.

Directors' remuneration

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

The Annual General Meeting determines and approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided such fees in accordance with Article 106 of the Commercial Companies Law of 1974 as amended, shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees do not exceed RO 200 000. The sitting fee for each Director does not exceed RO 10 000 in one year.

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****3. Significant accounting policies (continued)****Financial guarantees**

In the ordinary course of business, the Company issues financial guarantees to banks on behalf of customers that are stated as contingent liabilities in the Company's financial statements till it is cancelled or expires. In the event the bank invokes the guarantee, the Company pays the guarantee amount and debits the customer's account, which would form part of the receivable asset balance.

Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at contracted rates. Lease commitments are stated at contracted values at year end.

4. Critical accounting estimates and judgments

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 judgments 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 period are discussed below

Impairment losses on investment in finance debtors

The Company reviews its investment in finance debtors to assess impairment periodically. In order to assess the impairment, the Company follows guidelines issued by Central Bank of Oman and the requirements of applicable IFRSs. In determining whether an impairment loss should be recorded in the statement of comprehensive income, 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

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

4. Critical accounting estimates and judgments (continued)

Impairment losses on investment in finance debtors (continued)

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether an allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices and the performance of different individual groups).

Deferred taxation

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

5. Cash and bank balances

	2016 US \$'000	2015 US \$'000	2016 RO'000	2015 RO'000
Balances with banks	6,512	6,611	2,507	2,545
Cash and cheques in hand	197	127	76	49
	<u>6,709</u>	<u>6,738</u>	<u>2,583</u>	<u>2,594</u>

6. Net investment in finance debtors

Gross investment in finance leases	348,488	371,907	134,168	143,184
Unearned lease income	(42,156)	(46,938)	(16,230)	(18,071)
	<u>306,332</u>	<u>324,969</u>	<u>117,938</u>	<u>125,113</u>
Debt factoring activity debtors	121,717	110,278	46,861	42,457
	<u>428,049</u>	<u>435,247</u>	<u>164,799</u>	<u>167,570</u>

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

6. Net investment in finance debtors (continued)

Contractual income is not recognised by the Company so as to comply with the rules, regulations and guidelines issued by CBO against lease contract receivables and debt factoring which are impaired i.e. overdue by more than 89 days. As at 31 December 2016, finance debtors which are past due and impaired on which contractual income is not being accrued or has not been recognised amounted to RO 15.68 million which includes qualitative classification of RO 0.21 million (2015 - RO 13.56 million and qualitative classification of RO 0.90 million)

The movement of unearned lease income during the year was as follows:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
At 1 January	46,938	44,530	18,071	17,144
Addition during the year	21,021	26,824	8,093	10,327
Recognised during the year	(25,803)	(24,416)	(9,934)	(9,400)
At 31 December	42,156	46,938	16,230	18,071

The movement in allowance for impairment of finance debtors during the year was as follows:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
At 1 January	31,223	26,036	12,021	10,024
Provided during for the year	10,652	8,834	4,101	3,401
Released during the year	(7,291)	(3,644)	(2,807)	(1,403)
Net charge during the year	3,361	5,190	1,294	1,998
Written off during the year	(91)	(3)	(35)	(1)
At 31 December	34,493	31,223	13,280	12,021

At 31 December 2016, RO 4.15 million (2015 - RO 2.89 million) out of the total finance debtors impairment has been made on a portfolio basis against the losses incurred but not identified on the performing portion of the finance debtors. Investment in finance debtors include receivable from related parties amounting to RO 0.17 million (2015 - RO 0.38 million). Refer to note 25.

The movement in unrecognised contractual income during the year was as follows:

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

At 31 December	4,315	3,985	1,661	1,534
7. Deferred tax asset	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Deferred income taxes are calculated on all material temporary differences under the liability method using a principal tax rate of 12 % (2015 - 12%). Deferred tax asset is in respect of net investment in finance debtors and vehicles and equipment. The deferred tax asset recognised in the statement of financial position and the movement during the year is as follows:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
At 1 January	1,616	1,635	622	629
Recognised in the profit or loss (note 16)	(299)	(19)	(115)	(7)
At 31 December	<u>1,317</u>	<u>1,616</u>	<u>507</u>	<u>622</u>

8. Vehicles and equipment

	Motor vehicles RO'000	Furniture, fixture and office equipment RO'000	Total RO'000
Cost			
At 1 January 2015	23	576	599
Additions	-	60	60
Disposals / write offs	-	(1)	(1)
At 1 January 2016	<u>23</u>	<u>635</u>	<u>658</u>
Additions	-	34	34
Disposals / write offs	-	(53)	(53)
At 31 December 2016	<u>23</u>	<u>616</u>	<u>639</u>
Depreciation			
At 1 January 2015	22	523	545
Charge for the year	1	50	51
Disposals / write offs	-	(1)	(1)

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

At 31 December 2015	-	63	63
	<u> </u>	<u> </u>	<u> </u>

9. Statutory deposit

The Company is required to maintain a deposit of RO 250,000 (US \$ 649,351) (2015 - RO 210,000 (US \$ 545,455)) with CBO in accordance with the applicable licensing regulations. During the year, the deposit earned interest at the annual rate of 1% (2015 - 1%).

10. Share capital

The authorised share capital of the Company comprises 300,000,000 (2015 - 300,000,000) ordinary shares of 100 baisas each and paid up capital at 31 December 2016 comprised of 266,715,579 (31 December 2015 - 251,618,471) fully paid shares of 100 baisas each.

During 2016, the Company had issued 15,097,108 (2015 - 18,638,404) shares of 100 baisas each through stock dividend to the existing shareholders, which increased the paid up capital of the Company by RO 1.51 million (2015 - RO 1.86 million). The details of major shareholders who own 10% or more of the Company's shares are as follows:

Name of the shareholders holding greater than 10% of shares	% of holding	
	2016	2015
Fincorp Investment Co. LLC	23.08	23.08
Zawawi Trading Co. LLC	17.45	17.45
Al Siraj Investment Holding LLC	10.40	10.40

11. Legal reserve

In accordance with Article 106 of the Commercial Companies Law of Oman 1974, annual appropriations of 10% of the profit for the year, are made to legal reserve until the accumulated balance of the reserve is equal to one third of the Company's paid up share capital. This reserve is not available for distribution.

12. Special reserve

In accordance with the CBO guidelines, where foreign currency borrowings are in excess of

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

13. Proposed dividend

The Board of Directors proposed a cash dividend of RO 0.010 per share amounting to RO 2,667,156 (2015 - RO 0.010 per share amounting to RO 2,516,185) and stock dividend of RO 0.007 per share amounting to RO 1,867,009 (2015 – RO 0.006 per share amounting to RO 1,509,711). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

14. Bank borrowings

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Bank overdrafts	2,652	5,275	1,021	2,031
Short-term loans	54,545	61,044	21,000	23,502
Current portion of long-term loans	77,187	58,904	29,717	22,678
	<hr/>	<hr/>	<hr/>	<hr/>
Short term bank borrowings	134,384	125,223	51,738	48,211
Non-current portion of long-term loans	66,784	94,626	25,712	36,431
	<hr/>	<hr/>	<hr/>	<hr/>
	201,168	219,849	77,450	84,642
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

- The interest rates on overdrafts and long-term loans are subject to change at the discretion of the banks, upon renewal of the facilities, which takes place generally on an annual basis. The short-term loans are due to mature between one and one hundred and eighty days.
- The fair value of short-term borrowings approximates their carrying value.
- Long-term loans include RO 12.2 million (2015 - RO 9.5 million) denominated in US Dollars.
- The related interest rate risk and maturity profile are given under note 30.

15. Other liabilities

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Leasing related liabilities	5,522	15,761	2,126	6,068
Accruals for expenses	2,283	2,488	879	958
Advances received from customers	9,000	8,177	3,465	3,148

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

15. Other liabilities (continued)

The movement in employees' end of service benefits during the year is as follows:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
1 January	538	512	207	197
Charge for the year (note 22)	96	112	37	43
Paid during the year	(75)	(86)	(29)	(33)
31 December	559	538	215	207

16. Taxation

The tax charge during the year comprises:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Current year tax	2,184	1,682	841	648
Prior year reversal	(1,377)	-	(530)	-
Deferred tax (note 7)	299	19	115	7
	1,106	1,701	426	655

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

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Profit before income tax	14,451	13,015	5,564	5,011
Taxation at the applicable tax rate	1,725	1,553	664	598
Prior year reversal	(1,377)	-	(530)	-
Deferred tax	299	19	115	7

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

16. Taxation (continued)

The movement in the provision for taxation is as follows:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
At 1 January	3,255	3,554	1,253	1,368
Charge for the year	2,184	1,682	841	648
Reversal – prior year	(1,377)	-	(530)	-
Paid during the year	(1,878)	(1,981)	(723)	(763)
At 31 December	<u>2,184</u>	<u>3,255</u>	<u>841</u>	<u>1,253</u>

Tax assessments have been completed and agreed for all the years up to 2014 with the Oman tax Authorities. The assessment for the year 2015 has not been completed by the Oman tax authorities. The Company has filed an objection in respect of the assessment for the year 2010 related to allowable impairment losses on finance debtors and the management is of the opinion that additional taxes, if any, assessed for the open tax years would not be material to the Company's financial position as at 31 December 2016.

17. Corporate deposits and non-convertible bonds

The Company accepts term deposits from corporate customers in accordance with the CBO guidelines for a minimum period of 6 months and carry interest rates ranging from 2.75 to 5.25% (2015: 2.50 to 4.25%).

The non-convertible bonds of RO 5 million are for a period of 3 years and carry a coupon rate of 5.25% per annum (2015: 4.50% per annum). The bonds are unsecured and interest is payable semi-annually.

18. Derivative financial instruments

The Company has entered into interest rate swap contracts with a commercial bank for a total sum of US\$ 31.67 million (RO 12.19 mill) with a view to cap the Company's exposure to fluctuating interest rates. These interest rate swap transactions oblige the Company to pay a

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

18. Derivative financial instruments (continued)

The principal of the term loan outstanding under the Facility Agreement with the bank and the notional amount covered under the interest rate swap arrangement as of the reporting date was equivalent of RO 12.19 million. The table below shows the fair value of the derivative financial instrument, which is equivalent to the market value, together with the notional amount analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The Company has also entered into foreign currency forward contracts amounting to US\$ 12.48 million (RO 4.80 million) [2015: USD 6.44 million (RO 2.48 million)] to hedge its foreign currency risk arising from some borrowings made in US Dollars. The fair value of the forward contracts as at the year end based on prices in active markets was USD 0.17 million (RO 0.066 million) [2015: nil] and accounted for as an unrealized loss in the profit or loss. The fair values of the foreign currency forward contracts, as at 31 December 2015 were insignificant and therefore not recognised in the financial statements.

	Notional amounts by term to maturity			
	(Negative) / positive fair value RO'000	Notional amount total RO'000	1 -12 months RO'000	1 - 5 years RO'000
31 December 2016				
Foreign currency forward contracts	(66)	4,806	2,764	2,042
Interest rate swaps	26	12,191	5,866	6,325
Total	(40)	16,997	8,630	8,367
31 December 2015				
Interest rate swaps	(19)	9,508	5,016	4,492

19. Interest income

	2016 US \$'000	2015 US \$'000	2016 RO'000	2015 RO'000
Installment finance	26 078	23 117	10 040	9 522

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

20. Interest expense

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Corporate deposits	2,101	1,940	809	747
Non-convertible bonds	572	818	220	315
Bank Borrowings	7,904	5,073	3,043	1,953
	<u>10,577</u>	<u>7,831</u>	<u>4,072</u>	<u>3,015</u>

21. Other operating income

Fees, service charges and documentation charges	1,390	1,145	535	441
Other charges and recoveries	441	473	170	182
	<u>1,831</u>	<u>1,618</u>	<u>705</u>	<u>623</u>

22. Selling, general and administrative expenses

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Personnel costs	5,686	5,395	2,189	2,077
Statutory and court fees	725	494	279	190
Office expenses	888	834	342	321
Rent	527	447	203	172
Professional fees	94	99	36	38
Communications	270	179	104	69
Marketing and promotion expenses	184	358	71	138
	<u>8,374</u>	<u>7,806</u>	<u>3,224</u>	<u>3,005</u>

Personnel costs

Salaries and allowances	3,001	2,434	1,500	1,322
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**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

23. Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Profit for the year attributable to ordinary shareholders (US \$'000 / RO'000)	13,345	11,314	5,138	4,356
Weighted average number of ordinary shares in issue during the year ('000)	266,716	266,716	266,716	266,716
Basic earnings per share	US \$ 0.05	US \$ 0.04	RO 0.019	RO 0.016

Since the stock dividend of 15,097,108 shares during 2016 was an issue without consideration, for the purpose of calculating earnings per share, the issue is treated as if it had occurred at the beginning of 2016

For the purpose of calculating diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. As there are no dilutive potential shares, the diluted earnings per share are identical to the basic earnings per share.

24. Net assets per share

The calculation of net assets per share is as below:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Net asset value (US \$'000/RO'000)	99,718	92,790	38,391	35,724
Number of ordinary shares outstanding at 31 December ('000)	266,716	251,618	266,716	251,618

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

25. Related parties

Transactions

The Company has entered into transactions in the ordinary course of business with related parties which include shareholders with significant influence, entities over which directors have an interest, members of the board of directors and key management personnel. During the year, the following transactions were carried out with related parties:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Interest income	44	122	17	47
Other Operating Income	55	-	21	-
Other operating expenditure:				
Staff expenses	112	216	43	83
Office expenses	319	294	123	113
Interest on corporate deposit	525	899	202	346
Directors' remuneration and sitting fees	377	358	145	138
	<u>1,333</u>	<u>1,767</u>	<u>513</u>	<u>680</u>

Year end balances arising from related party transactions:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Receivable from related parties:				
Lease and factoring financing	455	982	175	378
Other advances	68	70	26	27
	<u>523</u>	<u>1,052</u>	<u>201</u>	<u>405</u>
Payable to related parties:				
Other liabilities	857	784	330	745
Corporate deposits	15,216	21,301	5,858	8,201

All amounts are in million, except in respect of related party debt presented in RO'000

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

25. Related parties (continued)

Key management compensation

The compensation paid or payable to key management (Seven employees) (2015: six employees) services is shown below:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Salaries and other benefits	930	735	358	283
End of service benefits	57	42	22	16
	987	777	380	299

26. Commitments

The Company has approved commitments to customers as on 31 December 2016 amounting to RO 1.60 million (2015 - RO 2.57 million) which is contingent upon fulfilment of the terms and conditions attached thereto

27. Contingent liabilities

At 31 December 2016, there were contingent liabilities of RO 2.83 million (2015 - RO 3.28 million) in respect of letters of credit and financial guarantees given to banks in the normal course of business on behalf of customers from which it is anticipated that no material liabilities will arise. Such guarantees are covered by counter guarantees from the customers in addition to other securities.

28. Segmental information

Class of business

The Company operates in the business segment of instalment financing and leasing of vehicles and other assets, debt factoring, working capital and receivable financing activities. The strategic business unit offers similar products and services and is managed as one segment. For the strategic business unit, the Chief Executive Officer reviews internal management reports on a

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****29. Financial risk management****Financial risk factors**

The Company's activities expose it to variety of financial risks: market risk (including currency risk and interest risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management is carried out by the management under the policies approved by the Board of Directors. The management identifies, evaluates and hedges financial risks in close cooperation with Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and investment of excess liquidity.

Market risk

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

Foreign exchange risk

Foreign currency risk is the risk arising from future commercial transactions or recognised financial assets or liabilities being denominated in a currency that is not the Company's functional currency. The majority of the Company's transactions are denominated in the functional currency. The Company is not exposed to foreign exchange risk as significant proportion of the Company's borrowings are denominated in functional currency or US Dollar which is pegged with Rial Omani.

Further, the Company has entered into derivative contracts in order to manage and reduce the foreign currency risk arising in relation to the Company's borrowings denominated in US Dollar

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 most important sources of such risk

**Notes to the financial statements
for the year ended 31 December 2016 (continued)****29. Financial risk management (continued)****Financial risk factors (continued)****Market risk (continued)****Interest rate risk (continued)**

Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The interest rates on short-term and long-term 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. The Company uses sensitivity analysis to analyse variable cost of borrowings. Management estimates that the Company's interest costs are sensitive to the extent that a change in 50 basis points in the average funding cost would change interest cost on borrowings by RO 0.39 million (2015 - RO 0.38 million). The Company's exposure to interest rate risk is shown under note 30.

The Company is exposed to fluctuation in interest rates on its term loan balance. Derivative financial instruments are used to reduce exposure to fluctuations in interest rates. While these are subject to the risk of market rates changing subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is crucial for the Company's business; therefore management carefully manages its exposure to credit risk. The Company has established credit policies and procedures to manage credit exposure including evaluation of lease, credit worthiness, credit approvals, assigning credit limits, obtaining securities such as lien on title on leased assets, security deposits, personal guarantees and mortgages over properties.

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. Exposure to credit risk is managed through regular analysis of the ability of lessees to meet repayment obligations. Debt factoring activity debtors

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

29. Financial risk management (continued)

Financial risk factors (continued)

Credit risk (continued)

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

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Bank balances	6,512	6,611	2,507	2,545
Net investment in finance debtors	428,049	435,247	164,799	167,570
Other receivables	1,221	1,805	470	695
	435,782	443,663	167,776	170,810

The Company has clear policies in place to identify early warning signals and to initiate appropriate and timely remedial actions. Some of the early warning indicators are listed below:

- frequent dishonor of cheques;
- inability to reach the customer over phone or in person;
- lack of response to written communications; and
- Adverse market feedback.

Individual customer concentration of net investment in finance debtors

At 31 December 2016 and 2015, the Company did not have any individual customer concentration of net investment in finance debtors. No single customer owes more than 10% of the aggregate amounts of net investment in finance debtors.

Economic sector concentration of gross investment in finance debtors

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Personal sector	110,908	108,910	42,700	41,930
Business sector	317,141	326,337	122,099	125,640

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

29. Financial risk management (continued)

Financial risk factors (continued)

Credit risk (continued)

Credit quality per class of financial assets

The Company's receivables which are neither past due nor impaired and past due but not impaired comprise 75 percent and 15 percent of net investment in finance debtors (2015– 80 percent and 12 percent) respectively.

The Company limits its credit risk with respect to exposure with banks by dealing with reputable banks.

Renegotiated finance debtors

Renegotiated lease receivables as at 31 December 2016 are RO 1.62 million (2015 - RO 1.59 million) and include impaired loans of RO 1.62 million (2015 - RO 1.46 million)

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may result in unavailability of certain sources of funding.

Sources of funding are regularly reviewed by the management and the asset liability management committee and monitored by diversification through long-term and short-term borrowings, increasing the number of lenders, developing additional products such as corporate deposits, seeking fixed interest rates for longer tenure.

Fund management has been carried out by treasury function of the Company. It includes managing and monitoring day to day cash flows and funding needs. This is achieved through maintaining approved credit facilities to cover net future funding needs and monitoring cash flows projections. The maturity profile of the Company's financial liabilities and net-settled derivative financial liabilities is set out under note 30.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

29. Financial risk management (continued)

Financial risk factors (continued)

Liquidity risk (continued)

Capital management (continued)

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

During 2016 and 2015, 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 2016 and 2015 were as follows:

	2016	2015	2016	2015
	US \$'000	US \$'000	RO'000	RO'000
Total borrowings	277,057	285,467	106,667	109,905
Total outside liabilities	299,543	318,117	115,324	122,475
Total equity	99,718	92,790	38,391	35,724
Net worth (defined above)	97,636	84,174	37,590	32,407
Gearing ratio (times)	2.78	3.08	2.78	3.08
Leverage ratio (times)	3.07	3.78	3.07	3.78

The fair value of financial assets and liabilities that are not traded in an active market is determined by using estimated discounted cash flows (level 3). The fair value of investments in listed securities is determined by quoted (unadjusted) prices in active markets for identical assets or liabilities (level 1). Derivative financial instruments carried at fair value amounting to RO 13,809 (2015: 18,560) are valued using level 2 inputs.

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**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

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Notes to the financial statements for the year ended 31 December 2016 (continued)

30. Financial instruments and financial risk management

Interest rate risk

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

31 December 2016	Range of effective interest rate %	Upto 6 months RO	6 to 12 months RO	1 to 2 years RO	2 to 3 years RO	More than 3 years RO	Fixed rate or non-interest rate sensitive RO	Total RO
Assets								
Cash and bank balances	-	-	-	-	-	-	2,583	2,583
Net investment in finance debtors	0.48-23.12	43,282	35,164	30,491	21,483	19,438	-	149,858
Other receivables and prepayments	-	-	-	-	-	-	470	470
Deferred tax asset	-	-	-	-	-	-	507	507
Vehicles and equipment	-	-	-	-	-	-	47	47
Statutory deposit	1.00	250	-	-	-	-	-	250
Total assets		43,532	35,164	30,491	21,483	19,438	3,607	153,715
Equity and liabilities								
Equity	-	-	-	-	-	-	38,391	38,391
Short-term bank borrowings	2.75-7.00	22,021	-	-	-	-	-	22,021
Other liabilities	-	-	-	-	-	-	7,776	7,776
Tax payable	-	-	-	-	-	-	841	841
Corporate deposits	2.75-5.25	12,254	2,849	8,405	-	709	-	24,217
Non-convertible bonds	-	-	-	-	5,000	-	-	5,000
Negative fair value of derivatives	-	40	-	-	-	-	-	40
Long-term loans (including current portion)	3.00-5.25	9,689	39,417	6,323	-	-	-	55,429
Total equity and liabilities		44,004	42,266	14,728	5,000	709	47,008	153,715
Gap between assets and liabilities		(472)	(7,102)	15,763	16,483	18,729	(43,401)	-
Cumulative gap between assets and liabilities		(472)	(7,574)	8,189	24,672	43,401	-	-

MUSCAT FINANCE SAOG

Notes to the financial statements for the year ended 31 December 2016 (continued)

30. Financial instruments and financial risk management (continued)

Interest rate risk (continued)

31 December 2015	Range of effective interest rate %	Upto 6 months RO	6 to 12 months RO	1 to 2 years RO	2 to 3 years RO	More than 3 years RO
Assets						
Cash and bank balances	-	-	-	-	-	-
Net investment in finance debtors	3.05 -18.43	31,647	28,219	37,217	26,301	30,631
Other receivables and prepayments	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-
Vehicles and equipment	-	-	-	-	-	-
Statutory deposit	1.00	-	-	210	-	-
Total assets		31,647	28,219	37,427	26,301	30,631
Equity and liabilities						
Equity	-	-	-	-	-	-
Short-term bank borrowings	2.00 -7.50	25,533	-	-	-	-
Other liabilities	-	-	-	-	-	-
Tax payable	-	-	-	-	-	-
Corporate deposits	2.50 - 4.25	6,525	1,948	8,800	990	-
Non-convertible bonds	4.50	7,000	-	-	-	-
Negative fair value of derivatives	-	19	-	-	-	-
Long-term loans (including current portion)	2.85 -3.85	54,109	5,000	-	-	-
Total equity and liabilities		93,186	6,948	8,800	990	-
Gap between assets and liabilities		(61,539)	21,271	28,627	25,311	30,631
Cumulative gap between assets and liabilities		(61,539)	(40,268)	(11,641)	13,670	44,301

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Notes to the financial statements for the year ended 31 December 2016 (continued)

30. Financial instruments and financial risk management (continued)

Liquidity risk

The amounts disclosed in table below analyses the Company's assets and liabilities as on 31 December 2016 and 31 December 2015 into maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts are undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of the discounting is not material.

31 December 2016	Upto 6 months RO	6 to 12 months RO	1 to 2 years RO	2 to 3 Years RO	More than 3 years RO
Assets					
Cash and bank balances	2,583	-	-	-	-
Net investment in finance debtors	43,282	35,164	30,491	21,483	19,438
Other receivables and prepayments	-	-	-	-	-
Deferred tax asset	-	-	-	-	-
Vehicles and equipment	-	-	-	-	-
Statutory deposit	-	-	-	-	-
Total assets	45,865	35,164	30,491	21,483	19,438
Equity and liabilities					
Equity	-	-	-	-	-
Short-term bank borrowings	22,021	-	-	-	-
Other liabilities	7,561	-	-	-	215
Tax payable	841	-	-	-	-
Corporate deposits	12,254	2,849	8,405	-	709
Non-convertible bonds	-	-	-	5,000	-
Negative fair value of derivatives	40	-	-	-	-
Long-term loans (including current portion)	15,412	14,304	22,224	3,489	-
Total equity and liabilities	58,129	17,153	30,629	8,489	924

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Notes to the financial statements for the year ended 31 December 2016 (continued)

30. Financial instruments and financial risk management (continued)

Liquidity risk (continued)

31 December 2016	Upto 6 months RO	6 to 12 months RO	1 to 2 years RO	2 to 3 Years RO	More than 3 years RO
Gap in maturity (excluding off balance sheet)	(12,264)	18,011	(138)	12,994	18,514
Cumulative gap in maturity	(12,264)	5,747	5,609	18,603	37,117
Assets off balance sheet					
Forward foreign exchange contracts	1,386	1,378	2,042	-	-
Total assets (including off balance sheet)	47,251	36,542	32,533	21,483	19,438
Liabilities off balance sheet					
Forward foreign exchange contracts	1,386	1,378	2,042	-	-
Total equity and liabilities (including off balance sheet)	59,515	18,531	32,671	8,489	924
Gap in maturity	(12,264)	18,011	(138)	12,994	18,514
Cumulative gap in maturity	(12,264)	5,747	5,609	18,603	37,117

MUSCAT FINANCE SAOG

Notes to the financial statements for the year ended 31 December 2016 (continued)

30. Financial instruments and financial risk management (continued)

Liquidity risk (continued)

31 December 2015	Upto 6 months RO	6 to 12 months RO	1 to 2 years RO	2 to 3 Years RO	More than 3 years RO
Assets					
Cash and bank balances	2,594	-	-	-	-
Net investment in finance debtors	31,647	28,219	37,217	26,301	30,631
Other receivables and prepayments	-	-	-	-	-
Deferred tax asset	-	-	-	-	-
Vehicles and equipment	-	-	-	-	-
Statutory deposit	-	-	-	-	-
Total assets	34,241	28,219	37,217	26,301	30,631
Equity and liabilities					
Equity	-	-	-	-	-
Short-term bank borrowings	25,533	-	-	-	-
Other liabilities	11,091	-	-	-	207
Tax payable	1,253	-	-	-	-
Corporate deposits	6,525	1,948	8,800	990	-
Non-convertible bonds	7,000	-	-	-	-
Negative fair value of derivatives	19	-	-	-	-
Long-term loans (including current portion)	11,969	10,709	21,928	14,503	-
Total equity and liabilities	63,390	12,657	30,728	15,493	207

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Notes to the financial statements for the year ended 31 December 2016 (continued)

30. Financial instruments and financial risk management (continued)

Liquidity risk (continued)

31 December 2015	Upto 6 months RO	6 to 12 months RO	1 to 2 years RO	2 to 3 Years RO	More than 3 years RO
Gap in maturity (excluding off balance sheet)	(29,149)	15,562	6,489	10,808	30,424
Cumulative gap in maturity	(29,149)	(13,587)	(7,099)	3,710	34,134
Assets off balance sheet					
Forward foreign exchange contracts	2,126	352	-	-	-
Total assets (including off balance sheet)	36,367	28,571	37,217	26,301	30,631
Liabilities off balance sheet					
Forward foreign exchange contracts	2,126	352	-	-	-
Total equity and liabilities (including off balance sheet)	58,516	20,009	30,728	15,493	207
Gap in maturity	(29,149)	15,562	6,489	10,808	30,424
Cumulative gap in maturity	(29,149)	913,587)	(7,098)	3,710	34,134

**Notes to the financial statements
for the year ended 31 December 2016 (continued)**

31. Comparative figures

Some of the corresponding figures for the previous year have been reclassified in order to conform to the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholders' equity.

32. Approval of financial statements

These financial statements were approved by the Board of directors and authorized for issue on 1 February 2017.