Saudi Finance Company
(A Saudi Closed Joint Stock Company)
Financial Statements and
Independent Auditors' Report
For the year ended 31 December 2018

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS
SAUDI FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
RIYADH, KINGDOM OF SAUDI ARABIA

Our opinion

We have audited the financial statements of Saudi Finance Company (the "Company"), which comprise the statement of financial position as at December 31, 2018, the statement of profit or loss, statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 32 (the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for zakat and income tax.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS as modified by SAMA for zakat and income tax and the applicable requirements of the Regulations for Companies and the Company's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud and error.

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

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

Auditors' 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 misstatements, 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 International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE SHAREHOLDERS
SAUDI FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
RIYADH, KINGDOM OF SAUDI ARABIA

Auditors' responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

- 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 a fair presentation.

We communicate with management and 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.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's Articles of Association in so far as they affect the preparation and presentation of the financial statements.

For PKF Al-Bassam & Co.
Allied Accountants

Ibrahim A. Al-Bassam
Certified Public Accountant
Registration No. 337

4 March 2019
27 Jumada Al-Thani 1440

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SAUDI FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2018	2017
ASSETS			
Cash and cash equivalents	5	50,298,496	12,374,236
Prepayments and other receivables	6	3,592,860	2,698,982
Due from related party	7	199,290	-
Net investment in Islamic financings	8	442,834,866	360,572,820
Investment carried at FVOCI	9	892,850	892,850
Assets repossessed held for sale	10	5,445,003	6,087,234
Restricted cash deposit	11	6,277,890	3,525,545
Property and equipment	12	5,018,293	5,676,021
Intangible assets	13	3,061,887	4,396,345
TOTAL ASSETS		517,621,435	396,224,033
EQUITY AND LIABILITIES			
EQUITY			
Share capital	14	100,000,000	100,000,000
Statutory reserve	15	6,148,243	4,334,611
Retained earnings		60,600,523	32,870,112
Actuarial gain / (loss) on employees' post-employment benefits	16	195,576	(43,926)
TOTAL EQUITY		166,944,342	137,160,797
LIABILITIES			
Due to related party	7	111,560	20,000
Trade payables	17	1,392,025	12,971,500
Other payables and accruals	18	8,655,424	4,865,974
Provision for zakat	19	10,017,032	20,767,786
Shari'a alternatives for financial derivative instruments	20	208,062	131,122
Financial facilities	21	327,956,104	217,540,631
Employees' post-employment benefits	16	2,336,886	2,766,223
TOTAL LIABILITIES		350,677,093	259,063,236
TOTAL EQUITY AND LIABILITIES		517,621,435	396,224,033
Contingencies and commitments.	22		

The accompanying notes 1 to 32 form integral part of these financial statements.

SAUDI FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2018	2017
INCOME FROM ISLAMIC FINANCING	23	77,657,027	60,763,981
OPERATING EXPENSES			
Finance cost	24	(11,008,432)	(8,112,124)
General and administrative expenses	25	(36,530,363)	(30,643,803)
Selling and marketing expenses	26	(10,316,177)	(6,945,281)
Impairment on Islamic financing, net	27	(2,314,839)	(6,014,188)
Impairment loss on assets repossessed held for sale	10	(642,231)	-
Unrealized (loss)/gain on shari'a alternatives for financial derivative instruments		(76,940)	183,243
OPERATING INCOME		16,768,045	9,231,828
Other income	28	1,368,272	1,103,900
PROFIT FOR THE YEAR		18,136,317	10,335,728

The accompanying notes 1 to 32 form integral part of these financial statements.

SAUDI FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2018	2017
Profit for the year		18,136,317	10,335,728
OTHER COMPREHENSIVE INCOME / (LOSS)			
Items that will not be reclassified to profit and loss			
Actuarial gain / (loss) on employees' post-employment benefits	16	239,502	(43,926)
Total other comprehensive income / (loss) for the year		239,502	(43,926)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		18,375,819	10,291,802

The accompanying notes 1 to 32 form integral part of these financial statements.

SAUDI FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in Saudi Riyals unless otherwise stated)

2018	**Share capital**	**Statutory reserve**	**Retained Earnings**	**Actuarial (loss)/gain on post-employment benefits**	**Total Equity**
Balance as at 1 January 2018	100,000,000	4,334,611	32,870,112	(43,926)	137,160,797
Transitional adjustment on adopting new standards at 1 January 2018 (Note 3)	-	-	839,032	-	839,032
Balance as at 1 January 2018 – restated	100,000,000	4,334,611	33,709,144	(43,926)	137,999,829
Profit for the year	-	-	18,136,317	-	18,136,317
Other comprehensive income	-	-	-	239,502	239,502
Zakat	-	-	10,568,694	-	10,568,694
Transfer to statutory reserve	-	1,813,632	(1,813,632)	-	-
Balance as at 31 December 2018	100,000,000	6,148,243	60,600,523	195,576	166,944,342

2017	**Share capital**	**Statutory reserve**	**Retained Earnings**	**Actuarial loss on post-employment benefits**	**Total Equity**
Balance as at 1 January, 2017	100,000,000	2,840,152	28,237,386	-	131,077,538
Prior year adjustment	-	460,886	(460,886)	-	-
Balance as at 1 January 2017 – restated	100,000,000	3,301,038	27,776,500	-	131,077,538
Profit for the year	-	-	10,335,728	-	10,335,728
Other comprehensive loss	-	-	-	(43,926)	(43,926)
Zakat	-	-	(4,208,543)	-	(4,208,543)
Transfer to statutory reserve	-	1,033,573	(1,033,573)	-	-
Balance as at 31 December 2017	100,000,000	4,334,611	32,870,112	(43,926)	137,160,797

The accompanying notes 1 to 32 form integral part of these financial statements.

SAUDI FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		18,136,317	10,335,728
Adjustments for:			
Depreciation	25	1,824,121	2,115,570
Amortization	25	1,623,030	1,330,423
Finance cost	24	11,008,432	8,112,124
Impairment on Islamic financing	8.5	7,710,069	9,620,000
Loss/(gain) on disposal of property and equipment		124,568	(39,352)
Impairment on assets repossessed held for sale	10	642,231	-
Unrealized loss/(gain) on shari'a alternatives for financial derivative instruments		76,940	(183,243)
Provision for employees' post-employment benefits	16.2	954,570	916,251
		23,963,961	21,871,773
(Increase) / decrease in operating assets			
Prepayments and other receivables		(893,878)	1,170,616
Due from related party		(199,290)	427,752
Net investment in Islamic financing		(89,133,083)	(6,099,130)
Restricted cash deposit		(2,752,345)	1,958,864
		(92,978,596)	(2,541,898)
(Decrease) / increase in operating liabilities			
Trade payables		(11,579,475)	12,313,325
Other payables and accruals		3,789,450	2,112,061
Due to related party		91,560	(75,335)
Zakat paid	19	(182,060)	(280,102)
Employees' post-employment benefits paid	16.3	(1,144,405)	(473,137)
Net cash (used in) / generated from operating activities		(59,903,248)	43,262,415
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	12	(1,290,961)	(1,930,378)
Purchase of intangible assets	13	(288,572)	(3,402,690)
Purchase of shares carried at FVOCI		-	(892,850)
Proceeds from the sale of property and equipment		-	47,705
Net cash used in investing activities		(1,579,533)	(6,178,213)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from financial facilities	21	318,046,892	193,000,000
Repayment of financial facilities	21	(209,091,650)	(229,503,805)
Finance cost paid	21	(9,548,201)	(8,464,559)
Net cash generated from / (used in) financing activities		99,407,041	(44,968,364)
Net increase/(decrease) in cash and cash equivalents		37,924,260	(7,884,162)
Cash and cash equivalents at beginning of the year		12,374,236	20,258,398
Cash and cash equivalents at end of the year	5	50,298,496	12,374,236

The accompanying notes 1 to 32 form integral part of these financial statements.

1. LEGAL STATUS AND OPERATIONS

Saudi Finance Company (formerly known as "Saudi Installment House Company") (the "Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010078374 dated 23 Muharram 1411H (corresponding to 14 August 1990).

The Company is engaged in leasing, commercial financing, small and medium business financing, and retail financing in accordance with the Saudi Arabian Monetary Authority ("SAMA") approval number 351000071328 dated 3 Jumad Thani 1435H and license number 114102 dated 27 Muharram 1436H.

Pursuant to the Ministry of Commerce and Investment Resolution numbered 291 dated 4 Muharram 1436H (corresponding to 28 October 2014), the Company has been converted from a Limited Liability Company to a Saudi Closed Joint Stock Company and changed its name from "Saudi Installment House Company" to "Saudi Finance Company".

The activities of the Company are conducted in accordance with Islamic Shari'a, which prohibits usury as determined by the Shari'a Supervisory Board of the Company. The Company carries out financing activities through various Shari'a compliant instruments.

The Company's Head Office is located at the following address:
Saudi Finance Company
Khurais Street, Makkah Road
P.O. Box 18331
Riyadh 11415
Kingdom of Saudi Arabia

The Company has the following branches:

S. No	Branch	C.R. No.	Date
1	Olaya, Riyadh	1010366245	23 Rabi Thani 1434H
2	Khurais, Riyadh	1010137723	17 Rabi Thani 1416H
3	Buraidah	1131013974	26 Dhul-Hijjah 1417H
4	Dammam	2051026306	24 Rabi Awal 1423H
5	Jeddah	4030242129	23 Rabi Thani 1434H
6	Al-Ahsa	2251056896	16 Jumad Awal 1435H
7	Medina	4650073124	11 Sha'aban 1435H
8	Hail	3350042118	11 Sha'aban 1435H
9	Badiya, Riyadh	1010391633	23 Dhul-Hijjah 1434H

2. BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and modified by Saudi Arabian Monetary Authority's (SAMA) guidance on accounting for zakat and income tax.

2.2 BASIS OF MEASUREMENT

These financial statements are prepared under the historical cost convention except for the following:

a) Shari'a alternatives for financial derivative instruments carried at fair value;
b) Investments are carried at fair value; and
c) Assets repossessed held for sale carried at fair value less cost to sale.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements have been presented in Saudi Riyals (SR) which is the Company's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Riyal, unless otherwise mentioned.

2.4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with the International Financial Reporting Standards ("IFRS") as endorsed in Kingdom of Saudi Arabia and modified by Saudi Arabian Monetary Authority's (SAMA) guidance on accounting for zakat and tax which require management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the year in which the estimates are revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

2.4.1 Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the 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 have been prepared on a going concern basis.

2.4.2.Determination of discount rate for present value calculations

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the tenure of the agreement and the individual risks of the underlying assets. The discount rate calculation is based on the specific circumstances of the Company.

2.4.3.Actuarial valuation of employees' post-employment benefits

The cost of the post-employment benefits ("employee benefits") under defined unfunded benefit plan is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and rate of employee turnover. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

2.4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

2.4.4. Impairment of net investment in Islamic financing

The IFRS 9 standard adopted from 1 January 2018 introduces a new single model for the measurement of impairment losses on all financial assets. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months and Loss Given Default (LGD) and profit is calculated on a gross basis;

Stage 2: Under Stage 2, where there has been a SICR since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded which is computed using lifetime PD, LGD and Exposure at Default (EAD) and profit is calculated on a gross basis. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1;

Stage 3: Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets and profit is calculated on a net basis.

2.5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE:

The following new accounting standards, interpretations and amendments to existing standards have been published and are mandatory for the accounting period beginning on or after 1 January 2019. The Company has not early adopted them.

IFRS 16 – Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Company can choose whether to:
- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains a lease.

2.5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE (Continued)

IFRS 16 – Leases (Continued)

Transition

As a lessee, the Company can either apply the standard using a:
- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Company currently plans to apply IFRS 16 initially on 1 January 2019. The Company has not yet determined which transition approach to apply.

As a lessor, the Company is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

The Company is required to adopt IFRS 16 Leases from 1 January 2019. The Company is in a process of performing initial assessment to assess the impact on the financial statement.

The Company plans to apply IFRS 16 from 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, without a restatement of comparative information.

No significant impact is expected for the Company's finance leases.

IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'. It specifically considers: whether tax treatments should be considered collectively; assumptions for taxation authorities' examinations; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and the effect of changes in facts and circumstances. The interpretation is not expected to have a material impact on the Company's financial statements.

This interpretation will be applicable annual periods beginning on or after 1 January 2019.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

The standards clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. The Company does not have any implications relating to the particular amendments.

IAS 12 Income Taxes

The standard clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity. The Company does not have any impact of income taxes.

2.5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE (Continued)

IAS 23 Borrowing Costs

The standards clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments. The interpretation is not expected to have a material impact on the Company's financial statements.

Other amendments

The following amendment to standards are not yet effective and neither expected to have a significant impact on the Company's Financial Statements:

- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)

3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2018 the Company has adopted two new accounting standards, the impact of the adoption of these standards is explained below:

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Company in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual years commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. The modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity, however, the impact on Company's financial statements was not significant.

IFRS 9 – Financial Instruments

The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below.

3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS(Continued)

Classification of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables, and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, see the respective section of significant accounting policies.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Company classifies financial liabilities under IFRS 9, see the respective section of significant accounting policies.

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit-impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see the respective section of significant accounting policies.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative years have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS(Continued)

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

i. The determination of the business model within which a financial asset is held.
ii. The designation and revocation of previously designated financial assets and financial liabilities as measured at FVTPL.

a. Financial assets and financial liabilities

i. Classification of financial assets and financial liabilities on the initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS(Continued)

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	Revised carrying value under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivable*	Amortized cost	12,374,236	12,374,236
Prepayments and other receivables	Loans and receivable	Amortized cost	2,698,982	2,698,982
Net investment in Islamic financings	Loans and receivable	Amortized cost	360,572,820	361,411,852
Investment carried at FVOCI	Available for sale	FVOCI	892,850	892,850
Restricted cash deposit	Loans and receivable	Amortized cost	3,525,545	3,525,545
			380,064,433	380,903,465
Financial liabilities				
Trade payables	Loans and receivable	Amortized cost	12,971,500	12,971,500
Other payables and accruals	Loans and receivable	Amortized cost	4,865,974	4,865,974
Due to related party	Loans and receivable	Amortized cost	20,000	20,000
Shari'a alternatives for financial derivative instruments	FVTPL	FVTPL	131,122	131,122
Financial facilities	Loans and receivable	Amortized cost	217,540,631	217,540,631
			235,529,227	235,529,227

**Loans and receivables are carried at amortized cost.*

ii. Impact on retained earnings

	Retained earnings
Closing balance under IAS 39 (31 December 2017)	32,870,112
Impact of provision for impairment under IFRS 9	839,032
Opening balance under IFRS 9 (1 January 2018)	**33,709,144**

The following table reconciles the provision for impairment recorded as per the requirements of IAS 39 to that of IFRS 9:

	31 December 2017 (IAS 39)	Reclassification	Remeasurement	1 January 2018 (IFRS 9)
Provision for impairment on islamic financing	10,095,337	-	(839,032)	9,256,305

3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS(Continued)

iii. The following table provides the carrying value of financial assets and financial liabilities in the statement of financial position.

	31-Dec-18					
	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI – Sukuk instruments	FVOCI – equity investments	Amortized cost	Total carrying amount
Financial assets						
Cash and cash equivalents	-	-	-	-	50,298,496	50,298,496
Prepayments and other receivables	-	-	-	-	3,592,860	3,592,860
Due from related party	-	-	-	-	199,290	199,290
Net investment in Islamic financings	-	-	-	-	442,834,866	442,834,866
Investment carried at FVOCI	-	-	-	892,850	-	892,850
Restricted cash deposit	-	-	-	-	6,277,890	6,277,890
Total financial assets				892,850	503,203,402	504,096,252
Financial liabilities						
Trade payables	-	-	-	-	1,392,025	1,392,025
Other payables and accruals	-	-	-	-	12,760,394	12,760,394
Due to related party	-	-	-	-	111,560	111,560
Shari'a alternatives for financial derivative instruments	208,062	-	-	-	-	208,062
Financial facilities	-	-	-	-	327,956,104	327,956,104
Total financial liabilities	208,062	-	-	-	342,220,083	342,428,145

4. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of these financial statements are set forth below. These accounting policies have been applied consistently to all the years presented, except as disclosed under note 3.

4.1. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1. Property and equipment (Continued)

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property and equipment is capitalized and the asset so replaced is retired from use. All other repairs and maintenance expenditure are charged to the profit and loss account during the year in which they are incurred.

Depreciation is charged using the straight-line method over its estimated useful life as mentioned below, after taking into account residual value.

Office equipment	4 Years
Furniture and fixtures	7 Years
Motor vehicles	4 Years
Leasehold improvements	7 Years

Depreciation on additions is charged from the month the assets are available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains/losses on disposal of property and equipment, if any, are taken to the profit and loss account in the year in which they arise.

The assets residual values, useful lives, and methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Capital work in progress at year-end includes certain assets that have been acquired but are not ready for their intended use. These assets are transferred to relevant assets categories and are depreciated once they are available for their intended use.

4.2. Intangible assets

Intangible assets having definite lives are stated at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is charged as disclosed in note 13 applying the straight-line method over the useful lives 4 years. Amortization is charged from the month in which the asset is available for use. The residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Subsequent costs are included in the asset's carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Gains and losses on disposals, if any, are taken to the profit and loss account in the year in which they arise.

Capital work in progress at year-end includes certain assets that have been acquired but are not ready for their intended use. These assets are transferred to relevant assets categories and are amortized once they are available for their intended use.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3. Assets repossessed held for sale

The Company in the ordinary course of its business acquires certain properties and other assets against the settlement of Islamic financings. Such assets are considered as assets held for sale and are initially recorded at the lower of carrying the amount of related Islamic financings or the fair value of the related assets, less any cost to sell.

Subsequent to the initial recognition, these assets owned are periodically revalued and are carried at lower of their carrying values or the amount fair value less cost to sell. Rental income, realized gain or losses on disposal and unrealized losses on evaluation are credited or charged to the statement of Profit or Loss.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset is recognised at the date of derecognition.

Assets repossessed are not depreciated or amortised while they are classified as held for sale.

Assets repossessed classified as held for sale are presented separately from the other assets in the statement of Financial Position.

4.4. Impairment of non-financial assets

At each statement of financial position date, the carrying amounts of non-financial assets are reviewed regularly to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the assets or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the statement of profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets or cash-generating unit in prior year. The reversal of an impairment loss is recognized in the statement of profit or loss immediately.

4.5. Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5.1. Financial assets

Initial measurement
At initial recognition, the Company recognizes the financial asset at its fair value.

Murabaha receivables
Murabaha is an agreement whereby the Company sells to a customer an asset, which the Company has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Murabaha sale contracts include the total of future sale price payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts receivable and the cost of the sold asset is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

Tawarruq receivables
Tawarruq is an agreement whereby the Company sells to a customer an asset, which the Company has already purchased and received either physically or constructively and subsequently to such sale, the customer arranges to sell the underlying asset and receives the sale proceeds. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Tawarruq sale contracts include the total sale price payments on the Tawarruq agreement (Tawarruq sale contract receivable). The difference between the Tawarruq sale contracts receivable and the cost of the sold asset is recorded as unearned Tawarruq profit and for presentation purposes, is deducted from the gross amounts due under the Tawarruq sale contracts receivable.

Ijara receivables
Ijara finance is an agreement wherein gross amounts due under originated Ijara (finance) includes the total of future payments on Ijara finance, plus estimated residual amounts receivable (by an option to purchase the asset at the end of the respective financing term through an independent sale contract). The difference between the ijara contracts receivable and the cost of the ijara assets is recorded as unearned Ijara finance income and for presentation purposes, is deducted from the gross amounts due under Ijara finance.

Subsequent measurement
After initial recognition financial asset can be measured at Amortised cost, Fair value through other comprehensive income ("FVOCI") or Fair value through profit and loss ("FVTPL").

a) Financial asset at amortized cost
A financial asset is measured at amortized 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 profit on the principal amount outstanding.

b) Financial asset at FVOCI
On initial recognition, for an equity investment that is not held for trading. the Company may irrevocably elect to present subsequent changes in fair value in OCI. This selection is made on an investment-by-investment basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5. Financial instruments (Continued)

c) Financial asset at FVTPL

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 amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

Business model assessment

The Company assesses 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 the 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 a contractual profit, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing 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 years, 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 realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company original expectations, the Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading 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.

Assessments whether contractual cash flows are solely payments of principal and profit

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5. Financial instruments (Continued)

In assessing whether the contractual cash flows are solely payments of principal and profit, 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 profit rates.

Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of

(i) the consideration received (including any new asset obtained less any new liability assumed) and
(ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

Impairment

The Company recognizes loss allowances for ECL on Islamic financing. No impairment loss is recognized on equity investments carried at FVOCI.

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 on which credit risk has not increased significantly since their initial recognition.

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

The Company categories' the financing in the following 3 stages for the purpose of impairment:

Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months and Loss Given Default (LGD) and profit is calculated on a gross basis;

Stage 2: Under Stage 2, where there has been a SICR since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded which is computed using lifetime PD, LGD and Exposure at Default (EAD) and profit is calculated on a gross basis. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1;

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5. Financial instruments (Continued)

Stage 3: Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets and profit is calculated on a net basis.

Measurement of ECL
ECL is 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); and
- 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;

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortized cost 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:

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

A financing that has been renegotiated due to deterioration in the customer'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, financing that is overdue for 90 days or more is considered impaired.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL, for financial assets measured at amortized cost, are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-off
Financings are written off (either partially or in full) when there is no realistic prospect of recovery. 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. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5. Financial instruments (Continued)

4.5.2. Financial liabilities

Initial measurement

At initial recognition, the Company recognizes the financial liability at its fair value.

Shari'a alternatives for financial derivative instruments

Shari'a alternatives for financial derivative instruments are initially recognized at fair value on the date on which the Shari'a alternative for the derivative contract is entered into and are subsequently re-measured at fair value in the statement of financial position with transaction costs recognized in the statement of profit or loss. All Shari'a alternative for financial derivatives instruments are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

Subsequent measurement

After initial recognition, the Company classifies its financial liabilities, other than financial guarantees & financing commitments and Shari'a alternatives for financial derivative instruments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EPR.

Derecognition of financial liability

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expired. When an existing financial liability is replaced by another from the same financier on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements only when the Company has a legally enforceable right to set off and the Company intends to either settle on a net basis or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

Regular way contracts

All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. the date on which the asset is delivered to or by the Company.

4.6. Financial facilities

Financial facilities are initially recognized at cost being the fair value of the consideration received together with the associated transaction costs. Subsequently, these are carried at amortized cost using the effective profit rate method.

Transaction costs relating to financial facilities are being amortized over the year of agreement using the effective profit rate method.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7. Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyals at exchange rates prevailing at the date of the transaction and the resulting gain/loss recognized in the statement of profit or loss Monetary assets and liabilities in foreign currencies are translated at the rates of exchange that are prevailing on the statement of financial position date. Gains and losses on translation are taken to statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

4.8. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates. The expense relating to a provision is presented in the statement of profit or loss.

4.9. Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the balance sheet date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of International Accounting Standard (IAS) 10, 'Events after the Reporting Year' in the year in which they are approved / transfers are made.

4.10. Revenue recognition

Income from Islamic financing is recognized in the statement of profit or loss using the effective profit method, using the applicable effective profit rate "EPR", on the outstanding balance over the term of the contract.

The calculation of EPR includes transaction costs and fees and commission income received that are an integral part of the EPR. Transaction costs include incremental costs that are directly attributable to the acquisition of the financial assets

Origination fees charged in respect of processing and other services are recognized as income using EPR over the term of the financing agreement.

4.11. Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks.

4.12. Employees' post-employment benefits

This represents the employee's post-employment benefits plan. Post-employment benefits as required by Saudi Arabian Labour Law are required to be provided based on the employees' length of service. The Company's net obligations in respect of defined unfunded benefit plans (Post-employment benefits) ("the obligations") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and any unrecognized past service costs. The discount rate used is the market yield on government sukuk at the reporting date that has maturity dates approximating the terms of the Company's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Company's present value of the obligation.

The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses. Currently, there are no past service costs. There are also no unrecognized re-measurement gains and losses as the entire re-measurement gains and losses are recognized as income or expense in other comprehensive income during the year in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13. General and Administrative expenses and Selling and marketing expenses

Selling and marketing expenses principally comprised of costs incurred in the sale and marketing of the Company's products/services. All other expenses are classified as general and administrative expenses.

4.14. Contingent liabilities

The Company receives legal claims through its normal cycle. Management has to make estimates and judgments about the possibility to set aside a provision to meet claims. The end of the legal claims date and the amount to be paid is uncertain. The timing and costs of legal claims depend on the statutory procedures.

4.15. Commitments

Lease arrangements where the Company is a lessee

Finance leases are those where the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. As a lessee, the Company classifies its leases as operating leases and the rentals payable are charged to the statement of profit or loss on a straight-line basis.

5. CASH AND CASH EQUIVALENTS

	Note	2018	2017
Cash in hand		18,533	16,000
Cash at Banks	5.1	50,279,963	12,358,236
		50,298,496	12,374,236

5.1. The Company does not earn profits on current accounts with banks and financial institutions in accordance with Shari'a rules and principles.

6. PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
Prepaid rent	1,717,166	574,173
Prepaid insurance	253,371	453,347
Prepaid Banking charges	506,549	297,027
Prepaid IT expense	145,214	412,303
Advances to staff	253,846	257,957
Accrued profit on restricted cash deposit	174,111	86,380
Others	542,603	617,795
	3,592,860	2,698,982

7. RELATED PARTY TRANSACTIONS AND BALANCES

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control of the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Transactions during the year

Names of Related Party	Nature of Relationship	Nature of transactions	2018	2017
Abu Dhabi Islamic Bank (ADIB), U.A.E	Affiliate	Financial facilities obtained	178,000,000	168,000,000
		Financial facilities repaid	(168,000,000)	(165,000,000)
		Finance cost	5,311,898	4,517,947
		Reimbursed for expense paid on behalf of associates	225,992	768,310
		Expenses paid on behalf of associates	(425,282)	(340,558)
Abdullah Ibrahim Al Khorayef Sons Company, KSA	Shareholder	Collection fee income	10,000	37,555
		Rent expense	222,000	222,000
		Income from Islamic financing	-	2,506
		Collection on behalf of AIA	315,415	857,275
		Repaid to AIA	213,855	799,720
		Expenses paid on behalf of shareholder	(63,000)	(63,000)
		Reimbursed for expense paid on behalf of shareholder	63,000	63,000

7. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Key management personnel	2018	2017
Salaries and other short-term employee benefits	6,129,684	5,150,200

Balances as at the year-end

	Note	2018	2017
Due from related party			
Abu Dhabi Islamic Bank (ADIB), U.A. E		199,290	-
Due to related party			
Abdullah Ibrahim Al Khorayef Sons Company, KSA		111,560	20,000
Financial Facilities			
Abu Dhabi Islamic Bank (ADIB), U.A. E	21	178,000,000	168,000,000
Abu Dhabi Islamic Bank (ADIB), U.A.E (Finance Cost)	21	3,609,309	2,522,684
		181,609,309	170,522,684
Islamic Financing			
Abdullah Ibrahim Al Khorayef Sons Company, KSA		-	1,664

8. NET INVESTMENT IN ISLAMIC FINANCINGS

	Murabaha		Ijara		Tawaruq		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Gross investment in Islamic financing	6,372,516	13,529,329	789,149	1,559,214	617,648,390	488,079,494	624,810,055	503,168,037
Unearned / Deferred Islamic financing income	(868,277)	(1,860,712)	(130,960)	(377,568)	(171,346,862)	(131,425,807)	(172,346,099)	(133,664,087)
	5,504,239	11,668,617	658,189	1,181,646	446,301,528	356,653,687	452,463,956	369,503,950
Unearned origination fees	(33,831)	(47,472)	(1,237)	(2,260)	(2,428,217)	(1,861,573)	(2,463,285)	(1,911,305)
Deferred transaction costs	37,499	81,737	1,854	4,664	3,655,933	2,989,111	3,695,286	3,075,512
	5,507,907	11,702,882	658,806	1,184,050	447,529,244	357,781,225	453,695,957	370,668,157
Impairment on Islamic financing							(10,861,091)	(10,095,337)
Net investment in Islamic financing							442,834,866	360,572,820
Current portion							177,918,422	147,284,369
Non-current portion							264,916,444	213,288,451

8.1. Management classifies the investment in Islamic financing that are either not yet due or otherwise past due but for 90 days or less as "performing" while all receivables that are past due for more than 90 days are classified as "non-performing". Below is the breakdown of performing and non-performing Islamic financing:

	2018	**2017**
Performing	436,680,356	352,656,672
Non-performing	15,783,600	16,847,278
	452,463,956	369,503,950

8. NET INVESTMENT IN ISLAMIC FINANCING (Continued)

8.2. The maturity of the gross investment in Islamic financings referred as "GIIF" and the present value of gross investment in Islamic financing referred as "PV of GIIF" is as follows:

	2018		2017	
	GIIF	PV of GIIF	GIIF	PV of GIIF
Not later than one year	239,221,103	181,787,117	194,728,439	150,931,820
Later than one year but not later five years	385,561,007	270,661,510	308,397,234	218,550,598
More than five years	27,945	15,329	42,364	21,532
	624,810,055	452,463,956	503,168,037	369,503,950

8.3. Investment in Islamic financing includes an amount of SR Nil (2017: SR 1,664) due from related party (see note 7).

8.4. The Company in the ordinary course of its business holds collateral in respect of the Islamic financing (being the title of assets leased out) in order to mitigate the credit risk associated with them. These collaterals are not readily convertible into cash and are intended to be repossessed and disposed of in case the customer defaults.

8.5. The movement in the provision for impairment of Islamic financing during the year is as follows:

	Note	2018	2017
Balance at beginning of the year		10,095,337	13,591,786
Transition adjustment on adoption of IFRS 9	3	(839,032)	-
Provided during the year		7,710,069	9,620,000
Written off during the year		(6,105,283)	(13,116,449)
Balance at the end of the year		10,861,091	10,095,337

9. INVESTMENT CARRIED AT FVOCI

During 2017, in accordance with instructions issued by SAMA, the Company has made an investment in Saudi Finance Leasing Contract Registry Company amounting to SR 892,850 and has classified the investment as fair value through other comprehensive income.

10. ASSETS REPOSSESSED HELD FOR SALE

During 2016, the Company has acquired certain real estate properties in satisfaction of a claim in order to achieve an orderly realization of Murabaha receivables. Company has filed a legal case against the erstwhile owner for realing the property. Company does not believe to have any contingent liability with regards to the legal case filed by the Company. The properties as of December 31, 2017 and 2018 are carried at lower of carrying amount or net realizable value.

These properties are legally owned by one of the board members of the Company for the sole benefit of the Company.

The fair value of the land was determined using the sales comparison approach as described in note below. This is a level 2 measurement as per the fair value hierarchy.

Fair value hierarchy

31 December 2018	Level 1	Level 2	Level 3	Total
Properties held for sale	-	5,445,003	-	5,445,003

31 December 2017	Level 1	Level 2	Level 3	Total
Properties held for sale	-	6,087,234	-	6,087,234

Valuation techniques used to determine level 2 fair values

The Company obtains independent valuations for its properties at least annually. At the end of each reporting period, the management update their assessment of the fair value of each property, taking into account the most recent independent valuations. The management determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
- discounted cash flow projections based on reliable estimates of future cash flows
- capitalized income projections based upon a property's estimated net market income, and a capitalization rate derived from an analysis of market evidence.

The level 2 fair value of properties held for resale has been derived using the sales comparison approach. The key inputs under this approach are the price per square meter from current year sales of comparable lots of properties in the area (location and size).

11. RESTRICTED CASH DEPOSIT

The Company has placed these funds in restricted bank accounts kept as margin deposit for certain financing facilities granted to the Company by counterparty finance providers amounting to SR6,277,890 (2017: SR 3,525,545). The Company is also earning profit on these balances.

12. PROPERTY AND EQUIPMENT

	2018								
	Cost				Accumulated depreciation				Netbook value
Description	As at 1-Jan-18	Additions	Disposals/ transfers	As at 31-Dec-18	As at 1-Jan-18	Charge for the year	Disposals	As at 31-Dec-18	As at 31-Dec-18
Furniture & Fixture	2,945,908	48,169	-	2,994,077	1,829,311	350,735	-	2,180,046	814,031
Office Equipment	5,777,976	521,806	-	6,299,782	3,871,714	542,770	-	4,414,484	1,885,298
Motor Vehicles	226,300	-	-	226,300	160,636	45,033	-	205,669	20,631
Leasehold Improvements	5,556,943	428,596	-	5,985,539	2,969,445	885,583	-	3,855,028	2,130,511
Capital Work in progress	-	1,166,394	(998,572)	167,822	-	-	-	-	167,822
	14,507,127	**2,164,965**	**(998,572)**	**15,673,520**	**8,831,106**	**1,824,121**	**-**	**10,655,227**	**5,018,293**

12. PROPERTY AND EQUIPMENT (Continued)

	2017								
	Cost				Accumulated depreciation				Netbook value
Description	As at 1-Jan-17	Additions	Disposals/ transfers	As at 31-Dec-17	As at 1-Jan-17	Charge for the year	Disposals	As at 31-Dec-17	As at 31-Dec-17
Furniture & Fixture	2,853,679	92,229	-	2,945,908	1,500,412	328,898	-	1,829,310	1,116,598
Office Equipment	3,887,064	1,890,912	-	5,777,976	2,967,579	904,135	-	3,871,714	1,906,262
Motor Vehicles	349,600	-	(123,300)	226,300	190,959	84,624	(114,947)	160,636	65,664
Leasehold Improvements	5,556,943	-	-	5,556,943	2,171,533	797,913	-	2,969,446	2,587,497
Capital Work in progress	52,763	1,891,633	(1,944,396)	-	-	-	-	-	-
	12,700,049	**3,874,774**	**(2,067,696)**	**14,507,127**	**6,830,483**	**2,115,570**	**(114,947)**	**8,831,106**	**5,676,021**

13. INTANGIBLES ASSETS

2018

	Cost				Accumulated amortization				Netbook value
Description	As at 1-Jan-18	Additions	Disposals/ transfers	As at 31-Dec-18	As at 1-Jan-18	Charge for the year	Disposals	As at 31-Dec-18	As at 31-Dec-18
Computer Software	8,392,604	465,446	(420,100)	8,437,950	4,102,079	1,623,030	(295,552)	5,429,557	3,008,393
Capital work in progress	105,820	545,241	(597,567)	53,494	-	-	-	-	53,494
	8,498,424	**1,010,687**	**(1,017,667)**	**8,491,444**	**4,102,079**	**1,623,030**	**(295,552)**	**5,429,557**	**3,061,887**

2017

	Cost				Accumulated amortization				Netbook value
Description	As at 1-Jan-17	Additions	Disposals/ transfers	As at 31-Dec-17	As at 1-Jan-17	Charge for the year	Disposals	As at 31-Dec-17	As at 31-Dec-17
Computer Software	5,038,942	3,353,662	-	8,392,604	2,771,656	1,330,423	-	4,102,079	4,290,525
Capital work in progress	56,792	3,400,950	(3,351,922)	105,820	-	-	-	-	105,820
	5,095,734	**6,754,612**	**(3,351,922)**	**8,498,424**	**2,771,656**	**1,330,423**	**-**	**4,102,079**	**4,396,345**

14. SHARE CAPITAL

The Company's subscribed and paid-up share capital of SR 100,000,000 is divided into 10,000,000 equity shares of SR. 10 each fully subscribed and paid, and distributed among shareholders as follows:

Shareholders	2018		
	Holding %	**No. of Shares**	**Amount**
ADIB Two Financial Invest LLC, U.A.E	**51%**	5,100,000	51,000,000
Abdullah Ibrahim Al Khorayef Sons Company, K.S.A	**46%**	4,600,000	46,000,000
Mohamed Abdullah Al Khorayef	**1%**	100,000	1,000,000
Saad Abdullah Al Khorayef	**1%**	100,000	1,000,000
Hamad Abdullah Al Khorayef	**1%**	100,000	1,000,000
	100%	**10,000,000**	**100,000,000**

No change in shareholding from the last year 2017.

15. STATUTORY RESERVE

As required by the Company's Articles of Association, 10% of the net profit for the year, has been transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the share capital. The reserve is not available for distribution.

16. EMPLOYEES' POST-EMPLOYMENT BENEFIT

	2018	**2017**
Present value of the defined benefit obligation	2,336,886	2,766,223

16.1. PRINCIPAL ACTUARIAL ASSUMPTIONS

	2018	**2017**
Discount rate (% per annum)	4.30%	3.60%
Rate of change in salary (% per annum)	2.50%	2.50%
Mortality rates SLIC (2001-2005)	125%	125%
Employee turnover (withdrawal) rates	Moderate	Moderate

16.2. AMOUNT CHARGEABLE TO PROFIT OR LOSS

	2018	**2017**
Service cost	833,485	836,055
Profit on net defined benefit liability	121,085	80,196
Total amount charged to Statement of Profit and Loss	954,570	916,251

16. EMPLOYEES' POST-EMPLOYMENT BENEFIT (Continued)

16.3. AMOUNT CHARGED TO OTHER COMPREHENSIVE INCOME OR LOSS

	2018	2017
Actuarial (Gains) / Losses due to change in demographic assumptions	-	-
Actuarial (Gains) / Losses due to change in financial assumptions	(185,965)	-
Actuarial (Gains) / Losses due to experience adjustments	(53,537)	43,926
Return on plan assets	-	-
Amount charged to Other Comprehensive Income or Loss	(239,502)	43,926

16.4. RECONCILIATION OF THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATION

	2018	2017
Present value of the defined benefit obligation at 1st January	2,766,223	2,279,183
Current service cost	833,485	836,055
Profit on defined benefit obligations	121,085	80,196
Benefits paid during the period	(1,144,405)	(473,137)
Actuarial (gain) / loss	(239,502)	43,926
Present value of defined benefit obligation at 31st December	2,336,886	2,766,223

16.5. The sensitivity of the employees' post-employment benefit to changes in the weighted principal assumptions is:

	Change in assumption	Increase / (decrease) in present value of employees' post-employment benefit liability	
		Amount	%
Discount rate	+1%	2,106,951	(9.84)%
	-1%	2,609,814	11.68%
Long term salary	+1%	2,612,116	11.78%
	-1%	2,101,135	(10.09)%
Mortality	+1%	2,337,647	0.03%
	-1%	2,336,118	(0.03)%
Employee turnover rate	+1%	2,330,103	(0.29)%
	-1%	2,342,928	0.26%

17. TRADE PAYABLES

These represent non-profit-bearing payables against the purchase of assets leased by the Company.

18. OTHER PAYABLES AND ACCRUALS

	2018	2017
Employee related provision	4,914,981	1,955,039
Accrued commission	776,823	689,152
Government related payables	436,984	359,949
Subscription charges	124,855	28,525
Others	2,401,781	1,833,309
	8,655,424	4,865,974

19. PROVISION FOR ZAKAT

The movement in the provision for zakat is as follows:

	2018	2017
Balance at the beginning of the year	20,767,786	16,839,346
Provided during the year	1,813,632	4,208,543
Payment during the year	(182,060)	(280,103)
Provision reversal for prior years	(12,382,326)	-
Balance at the end of the year	10,017,032	20,767,786

19.1. STATUS OF ASSESSMENTS

During 2016, zakat assessments have been raised by the General Authority of Zakat and Tax ("GAZT") for the years 2005 to 2007 assessing additional zakat of SR 2,621,509 against which the Company has filed an appeal. No provision has been recorded in these financial statements in this respect, as the Company is confident of a favorable outcome on this matter. The Company has filed zakat returns and has obtained provisional zakat certificate for all the years up to 2017 and these are still under review by the GAZT.

During 2018 the Company received certain queries related to appeal filed for 2005 to 2007 and response is submitted to GAZT. Additionally, GAZT has provided settlement assessment for the year 2014 to 2017 with zakat liability of SR 3,256,349 based on the methodology of 10% zakat calculated on the net profit before zakat. This has resulted into reversal of the excess zakat provision of SR 12,382,326 held by the company for these years with corresponding increase in the equity. Zakat charge for 2018 is calculated on the methodology of 10% zakat on the net profit before zakat on the basis of settlement assessment accepted by the company.

20. SHARI'A ALTERNATIVES FOR FINANCIAL DERIVATIVE INSTRUMENTS

	2018	2017
Profit rate swaps	208,062	131,122

	Less than 1 year	Between 1 year and 2 years	Between 2 years and 5 years
Current assets	4,395,293	-	-
Non-current assets	-	3,199,061	42,005,697
Current liabilities	(4,395,293)	-	-
Non-current liabilities	-	(3,199,061)	(42,005,697)

As at 31 December 2018, the Company held Profit Rate Swaps ("PRS") of a notional value of around SR 49,600,051 (2017: SR 21,894,809).

21. FINANCIAL FACILITIES

	Note	2018	2017
Short-term financial facilities		178,000,000	168,000,000
Long-term financial facilities	21.1	145,851,134	46,895,892
Finance cost payable		4,104,970	2,644,739
		327,956,104	217,540,631

21.1. Maturity profile

	2018	2017
Current portion		
Long-term financial facilities	53,775,254	20,550,455
Non-current portion		
Long-term financial facilities	92,075,880	26,345,437
	145,851,134	46,895,892

21.2. The Company obtained bank financial facilities from local Islamic banks for the purpose of financing working capital needs. These bank facilities bear finance cost at market prevailing rates and also have restricted cash deposit.

21.3. These facilities are collateralized against the receivables assigned to banks amounting to SR 147 million (2017: SR 59 million).

21.4. The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 31 December 2018, the Company was not in compliance with certain covenants of the financing agreements. However, the management has secured the necessary waiver from the respective bank and accordingly believes that the financers will not exercise their right to demand accelerated / immediate payment of the outstanding balance from the Company.

22. CONTINGENCIES AND COMMITMENTS

The Company has the following commitments for operating lease as at 31 December:

	2018	2017
Payments under operating leases recognized as an expense during the year		
Within 1 year	2,438,819	2,453,500
After 1 year but not more than 5 years	5,535,171	7,867,219
More than 5 years	-	-

Premises rent under operating lease arrangements represent rentals payable by the Company for certain office properties. Leases are negotiated for an average term of one year and rentals are fixed for the same period.

23. INCOME FROM ISLAMIC FINANCINGS

	2018	2017
Income from Ijara	117,076	95,108
Income from Murabaha	1,125,356	3,313,664
Income from Tawarruq	76,414,595	57,355,209
	77,657,027	60,763,981

23.1 Directly allocated transaction cost of Islamic financing is amounting to SR 2,496,299 (2017: SR 1,567,038)

23.2 Takaful expense for Ijara and Murabaha financing is amounting to SR 852,685 (2017: SR 1,473,178).

24. FINANCE COST

	Note	2018	2017
Financial charges on financing facilities from the bank	21	11,008,432	8,112,124

25. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2018	2017
Salaries, wages and other benefits		21,069,633	16,473,057
Rent expense		2,571,424	2,533,773
Legal, professional and consultancy fees		2,851,780	3,643,720
Depreciation	12	1,824,121	2,115,570
Amortization	13	1,623,030	1,330,423
Stationary and printing		192,275	119,556
Government expenses		574,752	451,532
Repair and maintenance		2,456,979	1,165,647
Utilities		1,008,703	1,099,604
Miscellaneous		2,357,666	1,710,921
		36,530,363	30,643,803

26. SELLING AND MARKETING EXPENSES

	2018	2017
Salaries, wages and other benefits	8,418,571	5,611,918
Collection Commission	1,852,553	1,255,000
Advertising expenses	45,053	78,363
	10,316,177	6,945,281

27. IMPAIRMENT ON ISLAMIC FINANCING, NET

	Note	2018	2017
Impairment on Islamic financing	8.5	7,710,069	9,620,000
Write-off recoveries		(5,395,230)	(3,605,812)
		2,314,839	6,014,188

28. OTHER INCOME

	2018	2017
Origination fee	1,395,109	986,929
(Loss)/Gains on sale of fixed assets	(124,568)	39,352
Others	97,731	77,619
	1,368,272	1,103,900

29. RISK MANAGEMENT

Risk is inherent in the Company's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability. The Company's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk.

29.1. Risk management structure

Board of Directors

The Board of Directors is responsible for establishing the Company's policies, including risk management framework, and to review the performance of the Company to ensure compliance with these policies.

Credit and risk management committee

The credit and risk management committee are appointed by the Board of Directors. The credit and risk management committee assists the Board in reviewing overall risks which the Company might face, evaluate and review operational and non-operational risks and decide on mitigating factors related therewith.

Audit committee

The audit committee is appointed by the Board of Directors. The audit committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the soundness of the internal controls of the Company.

Internal audit

All key operational, financial and risk management processes are audited by the Internal Audit. Internal audit examines the adequacy of the relevant policies and procedures, the Company's compliance with the internal policies and regulatory guidelines. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

The risks faced by the Company and the way these risks are mitigated by management are summarized below.

29.2. Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises three types of risks: currency risk, profit rate risk and other price risk.

29.2.1. Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals during the year. Accordingly, the Company is not exposed to any significant currency risk.

29. RISK MANAGEMENT (Continued)

29.2.2 Profit rate risk

Profit rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market profit rates. The Company's exposure to the risk of changes in market profit rates relates primarily to the Company's long-term debt obligations with floating profit rates.

Sensitivity analysis for variable rate financial instruments

	2018		2017	
	Change in Basis point	**Impact on income for the year**	**Change in Basis point**	**Impact on income for the year**
Saudi Riyals	+25	382,461	+25	292,982
Saudi Riyals	-25	(382,461)	-25	(292,982)

29.2.3. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have any financial instruments which are subject to other price risk.

29.3. 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.

Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, 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 expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Generating the term structure of PD

The Company employs statistical models to analyze 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 macroeconomic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators is oil prices.

29. RISK MANAGEMENT (Continued)

Determining whether credit risk has increased significantly
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modeling.

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace year that might be available to the customer.

Modified Financial Assets
The contractual terms of Islamic financing and advances may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. Existing Islamic financing and advances whose terms have been modified may be derecognized and the renegotiated Islamic financing and advances recognized as new Islamic financing and advance at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly is completed on the basis of the approved staging criteria.

The Company may renegotiate Islamic financings receivable to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Company's policy, Islamic financings receivable forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of Islamic financing and installments covenants. Both consumer and corporate portfolios are subject to the forbearance policy.

Definition of 'Default'
The Company considers a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the customer is past due more than 90 days on any material credit obligation to the Company.

In assessing whether a customer is in default. The Company considers indicators that are:
- qualitative- e.g. breaches of the covenant;
- quantitative- e.g. overdue status and;
- based on data developed internally and obtained from external sources.

29. RISK MANAGEMENT (Continued)

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.

Incorporation of forward-looking information

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses. The economic scenario used includes the key indicators of oil prices.

Measurement of ECL

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

i. The probability of default (PD);
ii. Loss given default (LGD);
iii. 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 above.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. For PD estimation, a transition matrix-based approach was used. Segment level transition rates between different delinquency buckets were used to compute PD, which was then extrapolated across the behavioral life

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

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 amortization. Outstanding Balance, Instalment Amount and Profit Rate are used to derive an amortizing balance curve for each account.

Out of the total assets of SR 517.62 million (2017: SR 396.22 million), the assets which were subject to credit risk amounted to SR 500.18 million (2017: SR 376.96 million). The management analyzes the credit risk in the following categories:

	Note	2018	2017
Net investment in Islamic financings	8	442,834,866	360,572,820
Bank balances and Restricted Cash Deposits	5 & 11	56,576,386	15,899,781
Accrued Income and Other Receivables		766,755	483,109
		500,178,007	376,955,710

29. RISK MANAGEMENT (Continued)

29.3.1. Net investment in Islamic financings

The investment in Islamic financings generally exposes to significant credit risk. Therefore, the Company has established a number of procedures to manage credit exposure including evaluation of lessees' creditworthiness, formal credit approvals, assigning credit limits, obtaining collateral and personal guarantees.

The Company also follows a credit classification mechanism, primarily driven by days delinquency as a tool to manage the quality of credit risk of the Islamic financing portfolio.

The aging of net investment in Islamic financings contracts is as under:

	2018	2017
Neither past nor due	298,728,262	214,138,000
Past due 1-30 days	92,578,439	85,580,935
Past due 31-90 days	45,373,655	52,937,737
Past due 91-180 days	4,321,154	10,224,629
Past due 181-365 days	9,784,836	6,622,649
Past due over 1 year	1,677,610	-
	452,463,956	369,503,950
Less: Impairment for Islamic financing	(10,861,091)	(10,095,337)
Net of Impairment loss	441,602,865	359,408,613
Total portfolio coverage ratio	2.4%	2.73%

Gross investment in Islamic financing and the corresponding ECL allowance as at 31 December 2018 classified into is as follows:

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount before ECL	391,262,080	45,418,276	15,783,600	452,463,956
ECL	5,697,770	2,717,591	2,445,730	10,861,091

The portfolio that is neither past due nor impaired has a satisfactory history of repayment, where applicable. As at statement of financial position date, the Company has adequate collaterals to cover the overall credit risk exposure after making an impairment provision.

Concentration risk

Concentrations of credit risk arise 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 affected similarly 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.

The Company manages its credit risk exposure through diversification of Islamic financing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

29. RISK MANAGEMENT (Continued)

Collateral held as security and other credit enhancements

The credit risks on gross amounts due in relation to the investment in Islamic financing is mitigated by holding collaterals. Further, the Company has obtained collaterals from some of its customers amounting to SR 147 million as at 31 December 2018 (31 December 2017: SR 207 million).

29.3.2. Bank balances and other receivables

Funds are placed with banks having good credit ratings and therefore are not subject to significant credit risk. Other receivables are neither significant nor exposed to significant credit risk.

29.3.3. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The shareholders of the Company are committed to provide the necessary financial support to the Company for its working capital, as and when needed.

The table below summarizes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

29. RISK MANAGEMENT (Continued)

	2018				
	Carrying amount	Contractual cash flows	up to three months	More than three months and up to one year	More than one year
Trade payables	1,392,025	1,392,025	1,392,025	-	-
Other payables and accruals	8,655,424	8,655,424	-	8,655,424	-
Due to related party	111,560	111,560	111,560	-	-
Shari'a alternatives for financial derivative instruments	208,062	208,062	208,062	-	-
Financial facilities	327,956,104	342,875,922	76,051,955	170,436,849	96,387,118
	338,323,175	353,242,993	77,763,602	179,092,273	96,387,118

	2017				
	Carrying amount	Contractual cash flows	up to three months	More than three months and up to one year	More than one year
Trade payables	12,971,500	12,971,500	12,971,500	-	-
Other payables and accruals	4,865,974	4,865,974	-	4,865,974	-
Due to related party	20,000	20,000	20,000	-	-
Shari'a alternatives for financial derivative instruments	131,122	131,122	131,122	-	-
Financial facilities	217,540,631	224,700,920	6,422,725	190,554,713	27,723,482
	235,529,227	242,689,516	19,545,347	195,420,687	27,723,482

29. RISK MANAGEMENT (Continued)

Analysis of financial assets and liabilities based on maturities

The table show analysis of financial assets and liabilities according to when they are expected to be recovered or settled:

	2018			
	Carrying amounts	**up to three months**	**More than three months and up to one year**	**More than one year**
Cash and cash equivalents	50,298,496	50,298,496	-	-
Prepayments and other receivables	3,592,860	-	3,592,860	-
Due from related party	199,290	199,290	-	-
Net investment in Islamic financing	442,834,866	51,911,483	126,006,939	264,916,444
Investment carried at FVOCI	892,850	-	-	892,850
Restricted cash deposit	6,277,890	1,000,000	1,500,000	3,777,890
Financial assets	504,096,252	103,409,269	131,099,799	269,587,184
Trade payables	1,392,025	1,392,025	-	-
Other payables and accruals	8,655,424	-	8,655,424	-
Due to related party	111,560	111,560	-	-
Shari'a alternatives for financial derivative instruments	208,062	208,062	-	-
Financial facilities	327,956,104	72,825,439	163,054,785	92,075,880
Financial liabilities	338,323,175	74,537,086	171,710,209	92,075,880
Maturity gap	165,773,077	28,872,183	(40,610,410)	177,511,304
Cumulative maturity gap	165,773,077	28,872,183	(11,738,227)	165,773,077

29. RISK MANAGEMENT (Continued)

	2017			
	Carrying amounts	**up to three months**	**More than three months and up to one year**	**More than one year**
Cash and cash equivalents	12,374,236	12,374,236	-	-
Prepayments and other receivables	2,698,982	-	2,698,982	-
Due from related party	-	-	-	-
Net investment in Islamic financing	360,572,820	44,373,266	102,911,103	213,288,451
Investment carried at FVOCI	892,850	-	-	892,850
Restricted cash deposit	3,525,545	-	500,000	3,025,545
Financial assets	380,064,433	56,747,502	106,110,085	217,206,846
Trade payables	12,971,500	12,971,500	-	-
Other payables and accruals	4,865,974	-	4,865,974	-
Due to related party	20,000	20,000	-	-
Shari'a alternatives for financial derivative instruments	131,122	131,122	-	-
Financial facilities	217,540,631	5,948,816	185,246,378	26,345,437
Financial liabilities	235,529,227	19,071,438	190,112,352	26,345,437
Maturity gap	144,535,206	37,676,064	(84,002,267)	190,861,409
Cumulative maturity gap	144,535,206	37,676,064	(46,326,203)	144,535,206

29.4. Capital risk management

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the sustained development of its business.

The Company manages its capital structure and makes adjustments to it in light of the changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the number of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Company monitors the aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA.

	2018	**2017**
Aggregate financing to capital ratio (Net investment in Islamic financing divided by total equity)	2.87	2.63

30. FAIR VALUE MEASUREMENT

30.1. Fair value measurement of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

30.2. Fair values of financial assets and liabilities

The Company's financial assets consist of cash and bank balances, investment, net investment in Islamic financings, restricted cash deposits and other receivables, its financial liabilities consist of trade payables, financial facilities, due to related party and other liabilities.

30. FAIR VALUE MEASUREMENT (Continued)

30.2. Fair values of financial assets and liabilities (Continued)

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement

The fair values of financial instruments are a reasonable approximation of fair value.

31. RECLASSIFICATION OF PRIOR YEAR FIGURES

Certain comparative information has been reclassified to conform to the current year presentation.

32. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 27 Jumada Al-Thani 1440H (corresponding to 4 March 2019) by the Board of Directors of the Company.