GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
AND INDEPENDENT AUDITOR'S REPORT

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Pages
Independent auditors’ report	1 - 3
Statement of financial position	4
Statement of comprehensive income	5
Statement of changes in shareholders’ equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 41

Independent auditor's report to the shareholders of Gulf Finance Corporation

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gulf Finance Corporation (the "Company") 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 as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

We 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 International Financial Reporting Standards as modified by SAMA for the accounting of zakat and income tax and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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.

PricewaterhouseCoopers, License No. 25,
Jameel Square, P.O. Box 16415, Jeddah 21464, Kingdom of Saudi Arabia
T: +966 (12) 610-4400, F: +966 (12) 610-4411, www.pwc.com/middle-east

Independent auditor's report to the shareholders of Gulf Finance Corporation (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Independent auditor's report to the shareholders of Gulf Finance Corporation (continued)

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 and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

PricewaterhouseCoopers

Mufaddal Ali
License Number 447

February 24, 2019

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at December 31, 2018	2017
Assets			
Current assets			
Cash and cash equivalents	5	**9,503,619**	7,599,264
Investment in finance lease-current portion	6	**57,477,113**	83,385,514
Deposits, prepayments and other receivables	7	**3,671,230**	8,970,572
		70,651,962	99,955,350
Non-current assets			
Restricted deposits		**-**	2,064,050
Investment in finance lease-non-current portion	6	**78,338,631**	33,095,372
Property and equipment	8	**584,323**	1,085,451
Intangible assets	9	**1,618,676**	2,200,281
Available-for-sale investment	10	**-**	892,850
Financial asset at fair value through other comprehensive income	10	**892,850**	-
		81,434,480	39,338,004
Total assets		**152,086,442**	139,293,354
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	1	**100,000,000**	100,000,000
Statutory reserve	11	**676,668**	676,668
Accumulated losses / retained earnings		**(4,905,648)**	5,815,607
Total shareholders' equity		**95,771,020**	106,492,275
Liabilities			
Current liabilities			
Current portion of long-term borrowings	12	**14,981,239**	25,887,793
Accounts payable		**450,487**	441,786
Due to related parties	13	**7,274,078**	3,170,230
Provision for zakat	14	**654,119**	300,000
Other liabilities and accruals	15	**1,848,423**	1,941,805
Derivative financial instruments		**-**	62,597
		25,208,346	31,804,211
Non-current liabilities			
Long-term borrowings	12	**30,270,447**	211,940
Post-employment benefits	16	**836,629**	754,315
Derivative financial instruments		**-**	30,613
		31,107,076	996,868
Total liabilities		**56,315,422**	32,801,079
Total shareholders' equity and liabilities		**152,086,442**	139,293,354

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

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31, 2018	2017
Income			
Income from finance lease and related credits		**12,270,533**	19,233,892
Other income		**1,224,085**	467,454
Total income		**13,494,618**	19,701,346
Expenses			
Finance charges	18	**(1,413,159)**	(4,896,827)
Other operating costs	19	**(3,070,299)**	(3,337,609)
General and administrative expenses	20	**(13,407,947)**	(13,158,785)
Allowance for impairment (charged) / reversed on investment in finance lease	6	**(1,501,437)**	1,972,777
Loss on disposal of re-possessed asset		**(101,118)**	-
Total expenses		**(19,493,960)**	(19,420,444)
(Loss) income for the year		**(5,999,342)**	280,902
Other comprehensive income		**-**	-
Total comprehensive (loss) income for the year		**(5,999,342)**	280,902

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

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of changes in shareholders' equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	(Accumulated (loss) / retained earnings	Total
Balance as at January 1, 2017		100,000,000	648,578	5,837,199	106,485,777
Total comprehensive income for the year		-	-	280,902	280,902
Transfer to statutory reserve		-	28,090	(28,090)	-
Zakat charge	14	-	-	(274,404)	(274,404)
Balance as at December 31, 2017		**100,000,000**	**676,668**	**5,815,607**	**106,492,275**
Impact of IFRS 9	2,6	**-**	**-**	**(4,092,231)**	**(4,092,231)**
Adjusted balance as at January 1, 2018		**100,000,000**	**676,668**	**1,723,376**	**102,400,044**
Total comprehensive loss for the year		**-**	**-**	**(5,999,342)**	**(5,999,342)**
Zakat charge	14			**(629,682)**	**(629,682)**
Balance as at December 31, 2018		**100,000,000**	**676,668**	**(4,905,648)**	**95,771,020**

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

GULF FINANCE CORPORATION
(A Saudi Closed Joint Stock Company)
Statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31, 2018	2017
Cash flows from operating activities			
(Loss) / income for the year		**(5,999,342)**	280,902
Adjustments for:			
Depreciation on property and equipment	8	**500,062**	594,817
Amortization of intangible assets	9	**826,332**	828,267
Impairment charged / (reversed)		**1,501,437**	(1,972,777)
Finance charges		**1,319,949**	5,184,360
Amortization of deferred charges	12	**92,370**	512,993
Provision for post-employment benefits, net		**201,032**	221,279
Interest income		**-**	(138,575)
Loss on disposal of property and equipment		**3,025**	-
Loss on disposal of re-possessed assets		**101,118**	-
Changes in working capital			
Deposits, prepayments and other receivables		**243,184**	189,525
Restricted deposits		**7,019,090**	1,687,172
Accounts payable		**8,701**	(2,974,828)
Other liabilities and accruals		**(179,609)**	(1,766,654)
Cash generated from operating activities		**5,637,349**	2,646,481
Post-employment benefits paid	16	**(118,718)**	(197,430)
Zakat paid	14	**(275,563)**	(66,908)
Finance charges paid		**(1,326,932)**	(6,178,005)
Net cash generated from (utilized in) operating activities		**3,916,136**	(3,795,862)
Cash flows from investing activities			
Investment in finance lease		**(49,923,114)**	72,612,637
Cash received on sale of non-performing portfolio	6.4	**24,994,588**	-
Additions to property and equipment	8	**(27,460)**	(6,710)
Additions to intangible assets	9	**(244,727)**	(52,236)
Available-for-sale investment		**-**	(892,850)
Proceeds from disposal of property and equipment		**25,501**	-
Net cash (utilized in) generated from activities		**(25,175,212)**	71,660,841
Cash flows from financing activities			
Proceeds from borrowings	12	**45,000,000**	-
Repayments during the year	12	**(25,940,417)**	(49,711,515)
Due to related parties		**4,103,848**	(17,243,642)
Net cash generated from (utilized in) financing activities		**23,163,431**	(66,955,157)
Net change in cash and cash equivalents		**1,904,355**	909,822
Cash and cash equivalents at beginning of year		**7,599,264**	6,689,442
Cash and cash equivalents at end of year	5	**9,503,619**	7,599,264
Non-cash investing and financing activities	22		

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

1 General information

Gulf Finance Corporation ("the Company") was a Saudi limited liability company formed under the laws of the Kingdom of Saudi Arabia and registered under the commercial register under No. 4030235277 on Dhul Qa'adah 28, 1433 (corresponding to October 14, 2012). On Sha'ban 26, 1435 (corresponding to September 24, 2014), the shareholders resolved to convert the legal status of the Company from a limited liability company to a closed joint stock company and obtained the necessary approval from the Ministry of Commerce & Industry (MOCI) and the notary public.

On December 15, 2013, and in accordance with the Article 6 of the Implementing Regulations of the Law of Supervision of Finance Companies, the Company submitted its application to Saudi Arabian Monetary Authority (SAMA) to obtain its license as a financing company. On Jumada'II 3, 1435 (corresponding to April 3, 2014), the Company obtained the preliminary approval on the license from SAMA. On Safar 16, 1436 (corresponding to December 8, 2014), the Company obtained the license from SAMA to engage in the finance lease activities. . The prinicpal of activities of the Company include financial lease, financing production assets to Small and Medium Enterprises (SMEs).

The share capital of the Company as of December 31, 2018 and December 31, 2017 was comprised of 1,000,000 shares stated at Saudi Riyals 10 per share owned as follows:

	No. of shares	Amount	Percentage of ownership
Shuaa Capital PJSC, a public joint stock company incorporated in the United Arab Emirates	9,200,000	92,000,000	92%
Gulf Finance Corporation PJSC, a private joint stock company incorporated in the United Arab Emirates	500,000	5,000,000	5%
Shuaa 1 for Commercial Brokerage (LLC incorporated in the United Arab Emirates)	100,000	1,000,000	1%
Shuaa 2 for Commercial Brokerage (LLC incorporated in the United Arab Emirates)	100,000	1,000,000	1%
Shuaa 3 for Commercial Brokerage (LLC incorporated in the United Arab Emirates)	100,000	1,000,000	1%
	10,000,000	**100,000,000**	**100%**

The Company's activities as per the commercial regiseration of the Company include:

(a) Wholesale and retail trade in cars and vehicles, trucks, tankers and heavy equipment, electrical and electronic devices and its spare parts in cash and installment; and

(b) Purchase of land for the construction of buildings and the investment of these buildings by selling or leasing them for the benefit of the Company, provided that the real estate shall be outside the boundaries of Makkah and Madinah.

The Company's head office is in Jeddah. The Company has the following branches:

Branch	CR Number	Date
Riyadh	1010369744	26/5/1434H
Dammam	2050091775	12/07/1434H

The results of operations, assets and liabilities of the above branches are included in the accompanying financial statements.

2. Statement of compliance and basis of preparation

Compliance with IFRS

The financial statements of the Company have been prepared in accordance with 'International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

2. Statement of compliance and basis of preparation (continued)

Historical cost convention

The financial statements have been prepared on a historical cost basis except for certain financial assets and liabilities (including derivative instruments) that are measured at fair value.

2.1 Adoption of new and revised standards

New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The Company has adopted amendments and revisions to existing standards, if any, which were issued by the International Accounting Standards Board (IASB) effective for the financial reporting period commencing on or after January 1, 2018:

IFRS 9 'Financial instruments'

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

As per transition provisions of IFRS 9, comparative periods 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 as at January 1, 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.

The key changes in accounting policies resulting from adoption of IFRS 9 are summarised below:

(i) Classification and measurement 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 ("FVTOCI") and fair value through profit or loss ("FVPL"). 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 and instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, see respective section of significant accounting policies (Note 3).

IFRS 9 largely retains the existing requirements of 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 the statement of comprehensive income. 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 other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

Management has assessed which business models apply to the financial assets and liabilities held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. 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 January 1, 2018:

2. Statement of compliance and basis of preparation (continued)

2.1 Adoption of new and revised standards (continued)

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial assets					
Cash and cash equivalents		Loans and receivables	Amortised cost	7,599,264	7,599,264
Available-for-sale investment	(a)	Available-for-sale investment	Financial asset at fair value through other comprehensive income	892,850	892,850
Restricted deposits		Amortised cost	Amortised cost	7,530,940	7,530,940
Advances to employees and other receivables (Included within prepayments and other receivables)		Loans and receivables	Amortised cost	322,492	322,492
Financial liabilities					
Long-term borrowings		Other financial liabilities at amortised cost	Amortised cost	26,099,733	26,099,733
Accounts payable and due to related parties		Other financial liabilities at amortised cost	Amortised cost	3,612,016	3,612,016
Negative fair value derivatives		Held for trading	Financial liability at fair value through profit and loss	93,210	93,210
Other liabilities and accruals		Other financial liabilities at amortised cost	Amortised cost	1,941,805	1,941,805

(a) Reclassification of investments from available-for-sale to FVTOCI

At January 1, 2018, the Company designated an investment in equity instrument as at FVTOCI. In 2017, this investment was classified as available-for-sale and measured at cost. The investment does not meet the IFRS 9 criteria for classification at amortised cost or any other category, because it is held as long-term strategic investment by the Company that is not expected to be sold in the short to medium term. Furthermore, there are no contractual cash flows of this investment. There was no impact on the amount recognised in relation to this investment from the adoption of IFRS 9.

(b) Other assets and liabilities

There was no impact on the amounts recognised in relation to all other financial assets and liabilities from the adoption of IFRS 9.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Company to record an allowance for ECLs for all its receivables against investment in finance lease and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. 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.

2. Statement of compliance and basis of preparation (continued)

2.1 Adoption of new and revised standards (continued)

The Company has investments in finance lease that is subject to IFRS 9's new expected credit loss model. The Company has adopted a general model in accordance with the requirements of IFRS 9. Cash and restricted deposits are placed with banks with sound credit ratings. Cash at bank, restricted deposits, advances to employees and other receivables are considered to have low credit risk therefore 12 months expected loss model was used for impairment assessment. Based on management impairment assessment there is no provision required in respect of these balances for all the period presented. No impairment loss was recognised on the other classes of financial assets.

Following is the impact of adoption of the expected credit loss model of IFRS 9:

	Net investment in finance lease	**Retained earnings**
Closing balance under IAS 39 (December 31, 2017)	**116,480,886**	**5,815,607**
Recognition of expected credit loss under IFRS 9	**(4,092,231)**	**(4,092,231)**
Opening balance under IFRS 9 (January 1, 2018)	112,388,655	1,723,376

Other standards, amendments to the published approved accounting standards and new interpretations adopted by the Company effective from January 1, 2018

Standard/ Interpretation	***Description***
Amendments to IFRS 2, 'Share based payments'	This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments'	These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will: • give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and • give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.
Amendment to IAS 40, 'Investment property' relating to transfers of investment property	These amendments clarify that to transfer to, or from, investment properties there must be a change in use. If a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
Annual improvements 2014–2016	These amendments impact two standards: • IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10. • IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value
IFRIC 22, 'Foreign currency transactions and advance consideration'	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/ receipts are made. The guidance aims to reduce diversity in practice.

2. Statement of compliance and basis of preparation (continued)

2.1 Adoption of new and revised standards (continued)

The adoption of the aforementioned other standards, amendments to the published approved accounting standards and new interpretations did not have any significant impact on these financial statements.

New standards, amendments to the published approved accounting standards and new interpretations that are not yet effective and have not been early adopted by the Company

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

Standard/ Interpretation	*Description*	*Effective from periods beginning on or after*
Amendment to IFRS 9, 'Financial instruments', on prepayment features with negative compensation	This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39	January 1, 2019
Annual improvements 2015–2017	These amendments includes minor changes to the following standards: • IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business. • IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. • IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.	January 1, 2019
Amendments to IAS 28 'Investments in associates', on long term interests in associates and joint ventures	These amendments clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9.	January 1, 2019

2. Statement of compliance and basis of preparation (continued)

2.1 Adoption of new and revised standards (continued)

Standard/ Interpretation	*Description*	*Effective from periods beginning on or after*
Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement	These amendments require an entity to: • use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and • recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.	January 1, 2019
IFRS 16 'Leases'	This standard replaces the current guidance in International Accounting Standards (IAS) 17 and is a far-reaching change in accounting by lessees in particular.	January 1, 2019
Amendments to IFRS 3 – definition of a business	This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations	January 1, 2020

There are no other relevant IFRS or IFRS interpretations that are not yet effective that would be expected to have a material impact on the Company's financial statements.

3. Summary of significant accounting policies

Except for the change in accounting policies resulting from the new and amended IFRS and IFRIC guidance, as detailed in note 2 above, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2017.

The following is a summary of significant accounting policies applied by the Company:

3.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date, which are available to the Company without any restrictions.

3.2 Investment in finance lease

Leases are classified as finance leases whenever 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.

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

Gross investment in finance lease represents the gross lease payments receivable to the Company, and the net investment in finance lease represents the present value of these lease payments including any guaranteed residual value, discounted at interest rate implicit in the lease. The difference between the gross investment in finance lease and unearned finance income represents net investment in finance lease which is stated net of allowance for impairment.

3. Summary of significant accounting policies (continued)

3.3 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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. The carrying amount of any component accounted for as a separate asset is derecognized when replaced.

All other repairs and maintenance are charged to statement of comprehensive income during the reporting period in which they are incurred. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated rates of depreciation of the principal classes of assets are as follows:

	Depreciation
• Computers and office equipment	33%
• Furniture and fixtures	33%
• Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 and losses on disposals are determined by comparing proceeds with carrying amount. These are included in comprehensive income.

3.4 Intangible assets – computer software

Costs associated with maintaining software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

The Company amortizes its intangible assets using straight-line method over their useful life of 5 years.

3.5 Accounts payable

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

3.6 Post-employment benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3. Summary of significant accounting policies (continued)

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Post-employment obligation

The Company operates a post-employment benefit scheme of defined benefit plans driven by the labour laws requirement in the Kingdom of Saudi Arabia for the Company.

The post-employment benefits plans are not funded. Accordingly, valuations of the obligations under those plans are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognised immediately in the statement of the comprehensive income while unwinding of the liability at discount rates used are recorded as financial cost. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are also recognised immediately in the statement of comprehensive income as past service costs.

3.7 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in statement of comprehensive income the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in statement of comprehensive income as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3.8 Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The financial statements are presented in Saudi Riyals since it is the reporting and functional currency of the Company.

Transactions and balances

Transactions in foreign currencies are translated into Saudi Riyals at the exchange rates prevailing at transaction date. At the end of each reporting period, monetary assets and liabilities, denominated in foreign currencies, are retranslated into Saudi Riyals at the exchange rates prevailing at that date. Foreign exchange gains or losses on settlement and translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income in the period in which they arise.

3. Summary of significant accounting policies (continued)

Non-monetary items carried at fair value which are denominated in foreign currencies are retranslated using the exchange rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.9 Zakat

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Provision for zakat for the Company is charged to the statement of changes in shareholders' equity. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

3.10 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of comprehensive income on a straight-line basis over the period of the lease.

3.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3.12 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation to its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.13 Revenue recognition - Finance lease and other operating income

(i) Income from finance lease

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

a. POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
b. Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(ii) Processing fee and other operating income

Processing fee and other operating income represents administration fees which include leases initiation and customer risk assessment. Processing fee income is recognized over the period of the lease using the effective rate method, which results in a constant periodic rate of return on the net investment outstanding.

3. Summary of significant accounting policies (continued)

(iii) Other operating income

It is recorded when earned and realized.

3.14 Financial instruments

a) Accounting policies applied for financial instruments effective from January 1, 2018:

Classification of financial assets

The Company classifies its financial assets under the following categories:

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

These classifications are on the basis of business model of the Company for managing the financial assets, and contractual cash flow characteristics.

The Company measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

Initial measurement

At initial recognition, financial assets or financial liabilities are measured at their fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. In the case of financial assets or financial liabilities not at fair value through profit or loss, its fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability is the initial recognition amount. Trade receivables are measured at transaction price.

Classification of financial liabilities

The Company designates a financial liability at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistency or where a group of financial liabilities is managed and its performance is evaluated on a fair value basis.

These amounts represent liabilities for goods and services provided to the Company prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 12 months of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

All other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset so that the net amount reported in the statement of financial position where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Reclassifications

Financial assets are reclassified when the Company changes its business model for managing financial assets. For example, when there is a change in management's intention to hold the asset for a short term or long term. Financial liabilities are not reclassified.

3 Summary of significant accounting policies (continued)

Subsequent measurement

Subsequent measurement of financial assets is as follows:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of comprehensive income.

FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in statement of comprehensive income and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

De-recognition

The Company derecognises a financial asset when, and only when the contractual rights to the cash flows from financial asset expire, or it transfers substantially all the risks and rewards of ownership of the financial asset.

Financial liabilities are derecognised when the obligations specified in the contract is discharged, cancelled or expires. A substantial change in the terms of a debt instrument is considered as an extinguishment of the original liability and the recognition of a new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

Modification

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, The Company recalculates the gross carrying amount of the financial asset and recognise a modification gain or loss in statement of comprehensive income. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

For financial liabilities, if an exchange or change in the terms of a debt instrument do not qualify for de-recognition it is accounted for as modification of the financial liability. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

3 Summary of significant accounting policies (continued)

Impairment

From January 1, 2018, the Company assesses on a forward looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Previously, the Company was using incurred loss model to assess the credit losses.

For net investment in finance leases, the Company applies the three-stage model ('general model') for impairment based on changes in credit quality since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12 months.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition, unless they have low credit risk at the reporting date, but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the maximum contractual period during which the Company is exposed to credit risk. ECL are the weighted average credit losses, with the respective risks of a default occurring as the weights.

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

The Company, when determining whether the credit risk on a financial instrument has increased significantly, considers reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument. Other instruments are considered as low risk and the Company uses a provision matrix in calculating the expected credit losses.

Financial assets are written off only when:

(i) the lease or other receivable is at least one year past due, and
(ii) there is no reasonable expectation of recovery.

Where financial assets are written off, the Company continues to engage enforcement activities to attempt to recover the lease receivable due. Where recoveries are made, after write-off, are recognized as other income in the statement of comprehensive income.

b) *Accounting policies applied for financial instruments until December 31, 2017:*

(i) Classification

The Company classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

3 Summary of significant accounting policies (continued)

(ii) Reclassification

The Company may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in statement of comprehensive income.

Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for ‘financial assets at fair value through profit or loss’ – in profit or loss within other income or other expenses.
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income.
- for other monetary and non-monetary securities classified as available-for-sale - in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss as part of revenue from continuing operations when the Company’s right to receive payments is established.

3 Summary of significant accounting policies (continued)

Interest income from financial assets at fair value through profit or loss is included in the net gains/ (losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognized in the statement of profit or loss as part of revenue from continuing operations.

(v) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset including investment in finance lease or group of financial assets is impaired. A financial asset including investment in finance lease or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortized cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss.

Impairment losses on equity instruments that were recognized in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(vi) Income recognition

Finance income

Finance income is recognized using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Finance income on impaired loans is recognized using the original effective interest rate.

Dividends

Dividends are recognized as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

(vii) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include bank loans, accounts payable and due to a related party and are stated at their nominal value. Bank loans are subsequently measured at amortized cost applying the effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3 Summary of significant accounting policies (continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income or expense is recognized on an effective interest basis for debt instruments, other than those financial instruments classified as fair value through profit or loss.

3.15 Derivative financial instruments

The Company has elected to continue to apply hedge accounting requirements of IAS 39 on adoption of IFRS 9.

The Company uses derivatives financial instruments to hedge the exposure of interest rate risks arising from financial activities.

The contracts of the interest rate swaps are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognized in the statement income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the statement of income depends on the nature of the hedge relationship.

Interest rate swaps, if material, are presented as a non-current asset in case of favorable contracts or a non-current liability in case of unfavorable contracts if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months and as a current asset or a current liability if the remaining maturity of the derivative instruments is less than 12 months. Other derivatives are presented as current assets or current liabilities.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make certain judgments. Estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

a) Measurement of expected credit loss allowance

The measurement of expected credit loss allowance for the financial assets measured at ammortised cost and FVTOCI is the area that requires the use of models and significant assumptions about future economic conditions and credit behavior (such as likelihood of customer defaulting and resulting losses). Explanation of inputs, assumptions, and estimation techniques used in measuring ECL is further detailed in note 21, which also sets out the key sensitivities of the ECL to change these elements.

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

- Determining the criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL
- Establishing the number and relative weighting of forward-looking scenarios for each type of industrial sector and associated ECL
- Establishing group of similar financial assets for the purpose of measuring ECL.

Detailed information about the judgements and estimates made by the company in the above areas is set out in Note 21.

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

a) Fair value measurement

The Company measures financial instruments at fair value at each reporting date. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

b) *Going* concern

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

5. Cash and cash equivalents

	2018	**2017**
Cash in hand	**4,815**	5,000
Cash at banks	**9,498,804**	7,594,264
	9,503,619	7,599,264

6. Investment in finance lease

	Note	**2018**	**2017**
Current			
Gross investment in finance lease		**75,874,280**	101,149,622
Less: Unearned finance income and processing fees		**(14,021,776)**	(14,899,927)
		61,852,504	86,249,695
Non-current			
Gross investment in finance lease		**94,491,795**	37,925,906
Less: Unearned finance income and processing fees		**(16,153,164)**	(4,830,534)
		78,338,631	33,095,372
Less: Allowance for impairment of investment in finance lease	6.2	**(4,375,391)**	(2,864,181)
		135,815,744	116,480,886

The title of the assets sold under finance leases agreements are held in the name of the Company. Further, all investment in finance leases are secured through personal guarantees. Investment in finance lease of Saudi Riyals 0.25 million (December 31, 2017: Saudi Riyals 18.2 million) were collateralised for loans obtained from the banks.

The interest rate inherent in the leases is fixed at the contract date of the entire lease term. The average effective interest rate contracted is approximately 10% to 19% per annum (2017: 10% to 19% per annum). The finance leases contracts term range between 10 months to 48 months (2017: 10 months to 48 months).

6. Investment in finance lease (continued)

6.1 Maturity analysis of net investment in finance lease is given below:

		December 31, 2018		**December 31, 2017**	
	Year	**Gross investment in finance lease**	**Gross investment in finance lease**	**Unearned finance income and processing fees**	**Unearned finance income and processing fees**
Total current portion	**2018**	**75,874,280**	101,149,622	14,899,927	**14,021,776**
Non-current portion	**2019**	**36,812,325**	26,479,789	3,544,661	**9,227,255**
	2020	**32,683,525**	9,725,758	1,151,811	**5,134,524)**
	2021	**24,995,945**	1,720,359	134,062	**1,791,385**
Total non-current portion		**94,491,795**	37,925,906	4,830,534	**16,153,164**
Total		**170,366,075**	139,075,528	19,730,461	**30,174,940**

6.2 The movement in allowance for impairment of investment in finance lease is as follows:

	Note	**2018**	**2017**
Opening		**2,864,181**	4,836,958
Impact on adoption of IFRS 9	2	**4,092,231**	-
Adjusted opening balance		**6,956,412**	4,836,958
Charged/(reversed) during the year		**1,501,437**	(1,972,777)
Write-off during the year		**(336,663)**	-
Impairment provision related to investment in finance lease transferred	6.4	**(3,745,795)**	-
Closing		**4,375,391**	2,864,181

6. Investment in finance lease (continued)

6.3 An analysis of changes in allowance for impairment of investment in finance lease is as follows:

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Allowance for impairment of investment as at January 1, 2018	**37,615**	**558,697**	**6,360,100**	**6,956,412**
Transfers to 12 month ECL	482,750	(200,843)	(281,907)	-
Transfers to Life time ECL not credit impaired	(3,561)	929,208	(925,647)	-
Transfers to Life time ECL credit impaired	(1,777)	(74,733)	76,510	-
Charge for the year	23,552	(846,307)	2,324,192	1,501,437
Write-offs	(10,754)	(34,432)	(291,477)	(336,663)
Transfers to the Parent Company (Note 6.4)	-	-	(3,745,795)	(3,745,795)
Allowance for impairment of investment as at December 31, 2018	**527,825**	**331,590**	**3,515,976**	**4,375,391**

Also see Note 21.2 for ageing of investment in finance lease which are past due.

6.4 On September 30, 2018, the Company transferred certain customer balances within investments in finance lease (“transferred investment in finance lease”) at their net carrying value in a “pass-through arrangement” to Shuaa Capital PJSC (“the Parent Company”). Consequent to the transfer, the Company de-recognized such investment in finance lease as all the conditions of a pass-through arrangement were met on that date. Details of the transfer are as of December 31, 2018 is as follows:

	Amount in Saudi Riyals
Investment in finance lease on the date of transfer	**28,740,383**
Less: Allowance for impairment of investment	**(3,745,795)**
Net investment in finance lease on the date of transfer (net of allowance for impairment)	**24,994,588**
Less: consideration received	**(24,994,588)**
Net gain / (loss) on transfer	**-**

Also see note 23 for details.

7. Deposits, prepayments and other receivables

	Note	2018	2017
Prepayments		**1,872,117**	1,843,516
Repossessed assets held for resale	7.1	**1,144,407**	1,317,674
Deposits	7.2	**531,850**	5,486,890
Advances to employees		**20,099**	120,507
Other receivables		**102,757**	201,985
		3,671,230	8,970,572

7.1 During 2017, the Company repossessed assets amounting to Saudi Riyals 1.3 million. During 2018, an asset amounting to Saudi Riyals 0.2 million was sold at a loss of Saudi Riyals 0.1 million. These assets are available for resale/refinancing at the year end.

7.2 Deposits include current portion of restricted deposits with a bank amounting to Saudi Riyals 0.33 million (2017: Saudi Riyal 5.46 million). Also see note 12.

8. Property and equipment

	January 1, 2018	Additions	Disposals	December 31, 2018
Cost				
Computers and office equipment	712,757	20,340	-	**733,097**
Furniture and fixtures	1,770,731	7,120	(146,700)	**1,631,151**
Motor vehicles	45,750	-	-	**45,750**
	2,529,238	27,460	(146,700)	**2,409,998**
Accumulated depreciation				
Computers and office equipment	(576,645)	(115,981)	-	**(692,626)**
Furniture and fixtures	(821,392)	(384,081)	118,174	**(1,087,299)**
Motor vehicles	(45,750)	-	-	**(45,750)**
	(1,443,787)	(500,062)	118,174	**(1,825,675)**
Net book amount	1,085,451			**584,323**

	January 1, 2017	Additions	Disposals	December 31, 2017
Cost				
Computers and office equipment	712,757	-	-	**712,757**
Furniture and fixtures	1,764,021	6,710	-	**1,770,731**
Motor vehicles	45,750	-	-	**45,750**
	2,522,528	6,710	-	**2,529,238**
Accumulated depreciation				
Computers and office equipment	(400,313)	(176,332)	-	**(576,645)**
Furniture and fixtures	(409,578)	(411,814)	-	**(821,392)**
Motor vehicles	(39,079)	(6,671)	-	**(45,750)**
	(848,970)	(594,817)	-	**(1,443,787)**
Net book amount	1,673,558			**1,085,451**

9. Intangible assets

	January 1, 2018	Additions	December 31, 2018
Cost			
Computer software	4,093,246	244,727	**4,337,973**
Accumulated amortization			
Computer software	(1,892,965)	(826,332)	**(2,719,297)**
Net book amount	2,200,281		**1,618,676**

9. Intangible assets (continued)

	January 1, 2017	Additions	December 31, 2017
Cost			
Computer software	4,041,010	52,236	**4,093,246**
Accumulated amortization			
Computer software	(1,064,698)	(828,267)	**(1,892,965)**
Net book amount	2,976,312		**2,200,281**

10. Financial asset at fair value through other comprehensive income

During 2017, the Company contributed an amount of Saudi Riyals 892,850 in the share capital of Saudi Company for Lease Contracts Registration, a Saudi joint stock Company under incorporation (the "investee Company") in the Kingdom of Saudi Arabia. The Company holds 89,285 shares in the investee Company that represents 2% of total share capital of the investee Company. The investee Company is currently in development stage and has not yet started its operations. The management believes that the carrying value of the investment approximates to the fair value at December 31, 2018 and December 31, 2017

11. Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to allocate 10% of its net income each year to a statutory reserve, after any accumulated deficit is absorbed, until such reserve equals 30% of its share capital. This reserve is not currently available for distribution to the shareholders.

12. Long-term borrowings

	Note	2018	2017
Commercial bank	12.1	**251,686**	26,099,733
Social Development Bank	12.2	**45,000,000**	-
		45,251,686	26,192,103
Less: Deferred charges	12.3	**-**	(92,370)
		45,251,686	26,099,733
Less: Current portion of long term borrowings		**(14,981,239)**	(25,887,793)
Non-current portion of long term borrowings		**30,270,447**	211,940

The movement in the long term borrowings is as follows:

	2018	2017
January 1	**26,192,103**	75,903,618
Acquired during the year	**45,000,000**	-
Repayment during the year	**(25,940,417)**	(49,711,515)
December 31	**45,251,686**	26,192,103

12. Long-term borrowings (contiued)

12.1 The Company obtained a loan facility from a commercial bank in the previous year. The loan is denominated in Saudi Riyals. The long-term borrowing bear markup ranging from 1 month bank rate plus margin per annum and is repayable in 2019. The facility is secured by promissory notes, restricted deposits (10% of drawn amount), an assignment of notes receivable of Saudi Riyals 4.68 million (December 31, 2017: Saudi Riyals 18.12 million), corporate guarantee issued by the major shareholders for Saudi Riyals 125 million (December 31, 2017: Saudi Riyals 125 million) and a letter of undertaking and acknowledgement signed jointly and severally by Chairman and Chief Executive Officer (CEO) in respect of the granted facilities. The terms of the facility include certain covenants such as restriction on distribution of dividend and changes in the Company's ownership and other covenants.

12.2 During the year, the Company obtained a long term loan facility amounting to Saudi Riyals 45 million from Social Development Bank, a Saudi Government owned financial institution. The Company is also required to pay an administrative fees of Saudi Riyals 1.05 million over the period of loan facility which has been incorporated in 36 equal monthly installments commencing from January 1, 2019. The terms of the loan facility requires the management to disburse the amount to its customers against such leases which meets the criteria defined in the facility agreement with Social Development Bank.

12.3 Movement in deferred charges is as follows:

	2018	**2017**
January 1	**92,370**	605,363
Amortized during the year	**(92,370)**	(512,993)
December 31	**-**	92,370

12.4 Maturity profile of long-term borrowings:

Year ending December 31:

	2018	**2017**
2018	**-**	25,887,793
2019	**14,981,239**	304,310
2020	**15,032,921**	-
2021	**15,237,526**	-
	45,251,686	26,192,103

12.5 The Company has undrawn financing facility at floating rate amounting to Saudi Riyals 60 million (2017: Saudi Riyals 62.3 million).

13. Related party matters

During 2018 and 2017, the Company has transactions with the following related parties under the normal course of business:

Name	**Relationship**
Shuaa Capital PJSC	Shareholder
Gulf Finance Corporation PJSC	Shareholder
Shuaa Capital Saudi Arabia	Associate
Second Coast Company for Commercial Hotels	Associate
Fifth Coast Company for Commercial Hotels	Associate
Key management personnel	Connected persons

13.1 The significant transactions and related amounts are as follows:

	Note	**2018**	**2017**
Funding from a shareholder		**-**	3,061,224
Allocation of software and related cost		**630,815**	700,136
Allocation of other operating expenses		**535,035**	247,721
Transfer of non-performing lease portfolio to the Parent Company	24	**24,994,588**	-
Facility fees and financial charges		**431,112**	1,444,978
Financing of assets under finance lease agreements to related parties		**22,000,000**	-

Compensation of key management personnel

The remuneration of directors and other members of key management during the year are as follows:

	2018	2017
Salaries paid to key management personnel	**3,404,233**	2,587,391
Post-employment benefits	**196,705**	114,192
Directors remuneration	**200,000**	99,194
	3,800,938	2,800,777

13.2 Due to related parties as of December 31 are comprised of the following:

	Note	2018	2017
Fifth Coast Company for Commercial Hotels	13.3	**5,500,000**	-
Shuaa Capital PJSC		**1,110,353**	-
Gulf Finance Corporation PJSC		**663,725**	3,170,230
		7,274,078	3,170,230

13.3 This represents current payable against a leased asset purchased from a related party.

13.4 The Company has entered into certain finance lease agreements with the related parties during the year. Due from related parties against outstanding finance leases are included within net investment in finance lease (Note 6) and are given below:

	2018	2017
Second Coast Company for Commercial Hotels	**5,500,000**	-
Fifth Coast Company for Commercial Hotels	**9,500,000**	-
	15,000,000	-

14. Zakat matters

14.1 Components of zakat base

The significant components of the zakat base, under zakat and income tax regulations, is principally comprised of shareholders' equity, provisions at the beginning of year, and adjusted net income, less deductions for the net book value of property and equipment, and certain other items.

The principal elements of the zakat base are as follows:

	2018	2017
Deductible assets	**(2,202,999)**	(121,830,668)
Non-current liabilities and borrowing including provisions	**49,109,800**	26,632,769
Opening shareholders' equity	**106,492,275**	106,485,777
Adjusted net (loss) income before zakat	**(5,373,209)**	502,183

Some of these amounts have been adjusted in arriving at the Company's zakat charge for the year.

14.2 Provision for zakat

	2018	2017
January 1	**300,000**	92,504
Provision for the year	**370,065**	274,404
Provision for prior years	**259,617**	-
Paid during the year	**(275,563)**	(66,908)
December 31	**654,119**	300,000

14.3 Status of final assessments

The Company has filed its zakat declarations with the General Authority of Zakat and Tax (GAZT) upto 2017.

14. Zakat matters (continued)

14.3 Status of final assessments (continued)

Subsequent to the year ended December 31, 2018, the Company received a settlement notice from GAZT stating the fact that from the year the Company was given a license from SAMA to be involved in lease activities till 2017, the Company is required to pay Saudi Riyals 0.26 million in installments from 2019 through 2023. Also, GAZT has provided a settlement formula to calculate zakat liability for the year ended December 31, 2018 which is calculated at ten percent of profit for the year including zakat charge or ten percent of the zakat charge for the year according to the executive regulations of zakat collection as per GAZT if the Company has incurred an loss during the year. The management believes that the provision recognized in the financial statements is sufficient to meet the current and previous zakat obligations and no further provision is required.

15. Other liabilities and accruals

	2018	**2017**
Advance payments from customers	**669,806**	1,393,241
Accrued expenses	**556,696**	355,840
Accrued finance charges	**152,345**	159,328
Other liabilities	**469,576**	33,396
	1,848,423	1,941,805

16. Post-employment benefits

	2018	**2017**
January 1	**754,315**	730,466
Charge for the year	**289,132**	252,841
Paid during the year	**(118,718)**	(197,430)
Reversed during the year	**(88,100)**	(31,562)
December 31	**836,629**	754,315

17. Operating leases arrangements

	2018	**2017**
Payments under operating leases recognized as an expense during the year	**326,239**	460,590

Operating lease payments represent rentals payable by the Company for certain office premises. Leases are negotiated for an average renewable term of 1 year and rentals are fixed for the same period.

18. Finance charges

	2018	**2017**
Finance charges on bank borrowings	**1,264,214**	5,184,360
Bank charges	**55,735**	72,085
Net loss / (gain) on interest rate swap derivatives	**93,210**	(359,618)
	1,413,159	4,896,827

19. Other operating costs

	2018	**2017**
Insurance expenses	**2,868,865**	3,225,633
Tracker expenses	**174,531**	57,944
Other	**26,903**	54,032
	3,070,299	3,337,609

20. General and administrative expenses

	2018	**2017**
Salaries and allowances	**8,569,463**	8,041,730
Depreciation and amortization	**1,326,394**	1,423,086
Professional and consultancy fees	**849,393**	807,693
Computer expenses	**683,196**	584,775
Rent	**326,239**	460,590
Travelling	**257,064**	291,197
Communication	**244,964**	147,049
Legal fees	**220,038**	378,527
Repairs and maintenance	**18,786**	41,856
Printing and stationary	**20,293**	11,607
Other	**892,117**	970,675
	13,407,947	13,158,785

21. Financial risk management

The Company's activities are exposed to a variety of financial risks which mainly include market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial statements. The Company uses derivatives financial instruments to reduce certain risk exposures. The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

21.1 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 or currencies and liquidity in the market.

Market risk comprises of three types of risk: foreign exchange risk, interest rate risk and price risk.

21.1.1 Foreign exchange risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. All the Company's transactions and finance lease arrangements are made in Saudi Riyals except for payable to shareholders and other transactions with shareholders which are in UAE Dirhams. Accordingly, the Company is not exposed to currency risk as both Saudi Riyals and UAE Dirhams are pegged against US Dollars and are exposed to similar fluctuations.

22.1.2 Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates is limited as all the Company's financial assets and significant financial liabilities have fixed interest rates.

21.1.3 Price risk

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 interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. As at December 31, 2018 and 2017, the Company has no investments that are exposed to price risk.

21. Financial risk management (continued)

21.2 Credit risk

21.2 .1 Risk management

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. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements. The Company also manages risk through a credit department which evaluates customers' credit worthiness and obtains adequate securities where applicable.

All investing transactions are settled / paid for upon delivery. The Company's policy is to enter into financial instrument contract by following internal guidelines such as approving counterparties and approving credits.

21.2 .2 Credit quality analysis

The Company monitors the credit quality of the finance lease receivables through diversification of activities to avoid undue concentration of risks with individuals or groups. For such purpose, the Company has established exposure limits for single lessees and business sectors. The Company has an effective rental monitoring system which allows it to evaluate customers' credit worthiness and identify potential problem accounts. An allowance for potential lease losses is maintained at a level which, in the judgment of management, is adequate to provide for potential losses on lease installment that can be reasonably anticipated. The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history. However, the rating for quality of Company's investments cannot be determined due to the fact that the customer base of the Company consist of small business for which such data is not readily available.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location. Ten largest customers account for 53% (2017: 25%) of outstanding balance of investment in finance lease as at December 31, 2018 and 2017.

Out of the total assets of Saudi Riyals 152 million (2017: Saudi Riyals 139.3 million) the assets which were subject to credit risk amounted to Saudi Riyals 145.9 million (2017: Saudi Riyals 131.8 million).

The maximum exposure to credit risk at the reporting date is:

	2018	**2017**
Net investment in finance lease	**135,815,744**	116,480,886
Other receivables	**102,757**	201,985
Cash at banks	**9,503,619**	7,599,264
Advances to employees	**20,099**	120,507
Restricted deposits with bank	**531,850**	7,530,940
	145,974,069	131,933,582

Concentration of the Company's customer into business sectors on the basis of percentage of the outstanding balance of investment in finance lease as at December 31 is as follows:

	December 31, 2018	**January 1, 2018**
Construction	**39.46%**	29.85%
Manufacturing	**17.02%**	26.78%
Commerce	**8.19%**	8.75%
Services	**35.33%**	19.74%
	100.00%	100%

21. Financial risk management (continued)

21.2 Credit risk (continued)

Following tables set out the information about the credit quality of net investment in finance lease on the basis of business sectors:

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Construction	**43,563,105**	**6,415,067**	**5,339,079**	**55,317,251**
Manufacturing	**16,114,151**	**4,324,205**	**3,426,037**	**23,864,393**
Commerce	**10,194,579**	**778,517**	**511,010**	**11,484,106**
Services	**39,671,140**	**3,057,505**	**6,796,740**	**49,525,385**
	109,542,975	**14,575,294**	**16,072,866**	**140,191,135**

21.2 .3 Impairment

Cash at banks and restricted deposits are placed with banks with sound credit ratings which is given in Note 21.2.2. Cash at bank, advances to employees, restricted deposits with bank and other receivables are considered to have low credit risk; therefore, 12 months ECL model was used for impairment assessment. Based on management impairment assessment, there is no provision required in respect of these balances. The Company applies general impairment ECL model to measure the credit allowances against net investment in finance lease which is explained below.

21.2 .3.1 Measurement of ECL

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

(i) 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, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large non-retail counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the legal standing against the defaulting counterparties. The LGD models also consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the lease receivable.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current lease receivables to the customer and potential changes to the current amount allowed under the lease contract including amortization. The EAD of a lease receivable is its carrying amount before allowance for impairment.

As described above, and subject to using a maximum of a 12-month PD for lease receivables for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require instalment.

21. Financial risk management (continued)

21.2 Credit risk (continued)

Where modeling of a parameter is carried out on a collective basis, the financial instruments are banked on the basis of shared risk characteristics that include:

- business sector of the customers;
- collateral type;
- date of initial recognition;
- remaining term to maturity;

21.2 .3.2 Categorization

The Company categorize its investment in finance lease into Stage 1, Stage 2, Stage 3, as described below:

Stage 1: When lease receivables are first recognised, the Company recognises an allowance based on 12 months ECLs. Stage 1 receivables also include facilities where the credit risk has improved and the receivable has been reclassified from Stage 2.

Stage 2: When a receivable has shown a significant increase in credit risk since origination, the Company records an allowance for the Lifetime ECL. Stage 2 receivables also include facilities, where the credit risk has improved and the receivable has been reclassified from Stage 3.

Stage 3: Receivable considered credit-impaired. The Company records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Category-wise net investment in finance lease is as follows:

	December 31, 2018	**January 1, 2018**
Stage 1	**109,542,975**	15,146,303
Stage 2	**14,575,293**	39,311,460
Stage 3	**16,072,866**	65,183,621
	140,191,135	119,641,384

21.2 .3.3 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 an 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).

21. Financial risk management (continued)

21.2 Credit risk (continued)

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly 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, the remaining lifetime PD is determined to have increased significantly.

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an 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 period that might be available to the customer.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

21.2 .3.4 Generating the term structure of PD

The Company employs vasicek technique to develop business sector PD models. In this process, the dependent variable is the default rate and the independent variables are the macro variables. The macro variable (Oil price) was selected on the basis of business intuition and statistical analysis performed.

Based on advice from the Company credit and risk committee and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of macro-economic variable as well as a representative range of other possible forecast scenarios. The Company then uses these forecasts to adjust its estimates of PDs.

21.2 .3.5 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.

In assessing whether a customer is in default, the Company also considers indicators that are:

- qualitative - e.g. breaches of lease contract ;
- quantitative- e.g. overdue status and non-payment; and
- based on data developed internally.

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

21. Financial risk management (continued)

21.2 Credit risk (continued)

21.2 .3.6 Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of a receivable has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Company's credit risk committee and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by global monetary authorities and academic forecasters.

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

The Company has 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 macro-economic variables and credit risk and credit losses. The management has used oil prices as the key macro-economic variable as at December 31, 2018 and January 1, 2018 to develop the base case scenario which the management estimates is the best estimate of the forecasted macro-economic variable for determination of the PD. Predicted relationships between the key indicators and default and loss rates on various business sectors of lease receivable have been developed based on analyzing historical data over the past 10 to 15 years.

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by Company:

	2018
Most likely (Base case)	**4,375,391**
More optimistic (Upside)	**3,665,711**
More pessimistic (Downside)	**4,779,427**

The ageing of investment in finance lease which are past due as follows:

	2018	**2017**
Less than 30 days	**2,275,459**	4,879,422
31-90 days	**3,061,444**	4,353,630
91-180 days	**1,214,484**	2,743,848
181-360 days	**1,658,888**	4,433,505
More than 360 days	**69,665**	4,120,616
	8,279,940	20,531,021

The not yet due portion of the above balances included in investment in finance lease is Saudi Riyals 22.8 million (December 31, 2017: Saudi Riyals 23.9 million).

21. Financial risk management (continued)

21.2 Credit risk (continued)

21.2 .3.7 Collateral

The Company in the ordinary course of financing activities hold collaterals as security to mitigate credit risk in the lease receivable. These collaterals include the underlying assets subject to finance lease and real estate properties in some scenarios. For lease receivables that are credit impaired at the reporting period, the Company closely monitors collateral held as it becomes more likely that Company will take possession of collateral to mitigate potential credit losses. Lease receivables that are credit-impaired and related collateral held in order to mitigate potential losses are shown below as at December 31, 2018:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Lease receivables	**16,072,866**	**3,239,765**	**10,874,664**	**44,060,014**

The following table shows the distribution of Loan to Value "LTV" ratios for the Company's credit-impaired lease portfolio:

	2018
Less than 50%	**30,571,742**
51-70%	**7,879,212**
More than 70%	**5,609,061**
Total	**44,060,015**

21.2 .4 Modified financial assets

The contractual terms of a lease receivable is mainly modified on the request of the customer. An existing lease receivable whose terms have been modified may be derecognized and the renegotiated lease receivable recognized as a new investment in finance lease at fair value in accordance with the accounting policy set out in Note 3.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the receivable's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Company renegotiates leases to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, lease receivable forbearance is granted on a selective basis if the customer is currently in default or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity and changing the timing of interest payments. The Company's credit and risk committee regularly reviews reports on forbearance activities.

21. Financial risk management (continued)

21.2 Credit risk (continued)

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

	2018	2017
Financial assets modified during the year		
Amortized cost before modification	**11,616,174**	42,710,167
Net modification (gain) / loss	**(727,774)**	1,855,748
Financial assets modified since initial recognition		
Gross carrying amount at December 31 of financial assets for which lease receivable has changed to 12-month measurement during the year	**138,242**	-

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the customer's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

21.2 .5 Bank credit rating

The credit quality of the Company’s bank balances are assessed with reference to external credit ratings which, in all cases, are above investment grade rating. The bank balances along with credit ratings are tabulated below:

	2018	2017
BBB+	**7,810,324**	6,272,061
A-	**1,688,480**	1,322,027
A+	**-**	176
	9,498,804	7,594,264

21.3 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 Company’s financial liabilities primarily consist of accounts payable, due to related parties, and bank borrowings. Accounts payable, due to related parties and accrued and other liabilities aggregating Saudi Riyals 7.7 million (2017: Saudi Riyals 2.4 million) have a short term maturity. The Company expects to have adequate liquid funds to settle its current liabilities through close monitoring of due to both current assets and current liabilities.

21. Financial risk management (continued)

21.3 Liquidity risk (continued)

Following is the contractual maturities of undiscounted cash flows of financial liabilities as at December 31, 2018 and 2017:

Contractual maturities of financial liabilities At December 31, 2018	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Total
Non-Derivative					
Accounts payable	**450,487**	**-**	**-**	**-**	**450,487**
Other liabilities and accruals	**1,976,510**	**-**	**-**	**-**	**1,976,510**
Bank borrowings	**7,540,647**	**7,440,592**	**15,032,921**	**15,237,526**	**45,251,686**
Due to related parties	**7,274,078**	**-**	**-**	**-**	**7,274,078**
	17,241,722	**7,440,592**	**15,032,921**	**15,237,526**	**54,952,761**

Contractual maturities of financial liabilities At December 31, 2017	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Total
Non-Derivative					
Accounts payable	441,786	-	-	-	441,786
Other liabilities and accruals	1,941,805	-	-	-	1,941,805
Bank borrowings	16,863,197	9,024,596	304,310	-	26,192,103
Due to related parties	3,170,230	-	-	-	3,170,230
	22,417,018	9,024,596	304,310	-	31,745,924
Derivative					
Interest rate swaps	362	62,235	30,613	-	93,210
	22,417,380	9,086,831	334,923	-	31,839,134

21.4 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's capital structure consists of net debt (borrowings as detailed in Note 12 and 13 offset by cash and bank balances) and equity of the Company. The Company's policy is to maintain a strong capital base well above the minimum requirements to maintain investor, creditor and market confidence and to sustain future development of the business. Further, the Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of SAMA. SAMA requires Finance Companies engaged in financing other than real estate, to maintain aggregate financing to capital ratio of three times.

The capital structure of the Company in terms of the gearing ratio is as shown below:

	2018	2017
Total borrowings	**35,748,067**	21,763,069
Total shareholders’ equity	**95,771,020**	106,492,275
Total capital structure	**131,519,087**	128,255,344
Gearing ratio	**27.18%**	16.97%

21. Financial risk management (continued)

Borrowings consist of long term bank borrowings and due to related parties offset by cash and cash equivalents.

	2018	2017
Aggregate financing to capital ratio (Gross investment in finance lease divided by total equity)	**1.42 times**	1.09 times

Equity includes all capital and reserves of the Company that are managed as capital.

21.5 Fair value of financial instruments

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The Company's financial assets consist of cash and cash equivalents, other receivables, investments, bank deposits, and financial liabilities consisting of borrowings, due to shareholders, accrued expenses and other liabilities.

The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position date.

Determination of fair value and fair value hierarchy.

The Company, if applicable, uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Set out below is a comparison, by class, of the carrying amounts and fair value of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	December 31, 2018 carrying amount	Fair value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets					
FVTOCI	**892,850**	**892,850**	**-**	**-**	**892,850**
Total assets	**892,850**	**892,850**	**-**	**-**	**892,850**

21. Financial risk management (continued)

21.5 Fair value of financial instruments (continued)

	December 31, 2017 carrying amount	Fair value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets					
Available-for-sale investments					
Investment in equity securities	**892,850**	**892,850**	**-**	**-**	**892,850**
Total assets	**892,850**	**892,850**	**-**	**-**	**892,850**
Liabilities					
Derivative financial instruments					
Interest rate swaps	**93,210**	**93,210**	**-**	**93,210**	**-**
Total Liabilities	**93,210**	**93,210**	**-**	**93,210**	**-**

The management assessed that cash and cash equivalents, other receivables, trade payables and other liabilities and accruals approximate their carrying amounts largely due to the short-term maturities of these instruments.

There were no transfers between levels during the years ended December 31, 2018 and 2017.

22. Non-cash investing and financing activities

	Note	2018	2017
Transfer of finance lease portfolio to the Parent Company	6.4	**24,994,588**	-

23. Finance lease receivables – servicing and security agency agreements

In accordance with the terms of servicing and security agency agreement, the Company has transferred certain finance lease receivables to the Parent Company. The Company does not retain the risk and reward associated with such receivables.

The Company continues to manage these derecognized finance lease receivables as a servicer and security agent in accordance with the agency agreements entered into with the Parent Company (see Note 6). The Company is continuing to manage these sold receivables for an agreed fee which is netted-off with related cost of servicing these finance lease receivables sold to Parent Company.

The outstanding position of such off statement of financial position finance lease receivables is as follows:

	2018	2017
Finance lease receivables transferred to the parent Company	**24,045,716**	**-**

Maturity profile of finance lease receivable sold under securitized deals are as follows:

	December 31, 2018	
	Less than one year	One to five year
Agency agreement	**-**	**24,045,716**

24. Approval of financial statements

These financial statements have been authorised for issue by the management on February 24, 2019.