GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS
GULF FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Gulf Finance Company (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, statement of comprehensive income or loss, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements from 1 to 33, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

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 are independent of the Company in accordance with the code of professional conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statement of the Company for the year ended 31 December 2018 were audited by another auditor who expressed an unqualified opinion on those statements on 24 February 2019.

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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and Regulations for Companies and the Company's Bylaws 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, i.e. the Board of Directors, are responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (Continued)

TO THE SHAREHOLDERS
GULF FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

Auditors' responsibilities for the audit of the financial statements

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

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 skepticism throughout the audit. We also;

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

TO THE SHAREHOLDERS
GULF FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Based on the information that has been made available to us, as disclosed in Note 8, the Company issued a loan amounting to SR 8 Million to its parent entity, Shuaa Capital PSC, registered in United Arab Emirates, which contravenes with the following regulations applicable to the Company:

1. Article 73 of Regulation for Companies in the Kingdom of Saudi Arabia
2. Article 12(a) of Finance Companies Control Law issued by Saudi Arabian Monetary Authority ("SAMA")
3. Article 56(4) of implementing regulations for Finance Companies Control Law issued by SAMA
4. Article 58(2)(a) of implementing regulations for Finance Companies Control Law issued by SAMA

For Al-Bassam & Co.
Riyadh, Kingdom of Saudi Arabia

Ahmed A. Al Mohandis
Certified Public Accountant
License No. 477

20 Ramadan 1441H
13 May 2020

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GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 December 2019	2018 (Restated)
ASSETS			
Cash and cash equivalents	6	**26,626,908**	9,503,619
Prepayments and other receivables	7	**1,623,332**	2,224,674
Due from a related party	8	**5,876,476**	-
Assets repossessed held for sale	9	**741,000**	1,116,556
Net investment in Islamic financing	10	**167,423,899**	136,045,607
Restricted cash deposits	11	**355,720**	330,000
Investment carried at FVOCI	12	**892,850**	892,850
Property and equipment	13	**137,928**	584,323
Intangible assets	14	**783,605**	1,618,676
Right-of-use assets	15.1	**164,568**	-
TOTAL ASSETS		**204,626,286**	152,316,305
EQUITY AND LIABILITIES			
EQUITY			
Share capital	16	**100,000,000**	100,000,000
Statutory reserve	17	**994,257**	649,228
Accumulated losses		**(2,510,478)**	(5,615,739)
Actuarial gain on employees' post-employment benefits		**532,397**	302,922
TOTAL EQUITY		**99,016,176**	95,336,411
LIABILITIES			
Other payables and accruals	18	**3,872,374**	2,376,428
Lease liabilities	15.1	**166,585**	-
Due to related parties	8	**107,671**	7,274,078
Provision for zakat	19	**1,045,050**	654,119
Financial facilities	20	**99,268,837**	45,404,031
Employees' post-employment benefits	21	**1,149,593**	1,271,238
TOTAL LIABILITIES		**105,610,110**	56,979,894
TOTAL EQUITY AND LIABILITIES		**204,626,286**	152,316,305
Contingencies and commitments	22		

The accompanying notes 1 to 33 form an integral part of these financial statements.

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2019	2018 (Restated)
INCOME FROM ISLAMIC FINANCING, NET	23	**15,562,862**	9,200,234
OPERATING (EXPENSES) / INCOME			
Finance cost	24	**(1,394,615)**	(1,413,159)
General and administrative expenses	25	**(12,923,240)**	(13,740,058)
Reversal / (impairment) on Islamic financing	10.8	**1,168,747**	(1,501,437)
Impairment on fair value measurement of assets repossessed held for sale	9	**(375,556)**	-
Other income, net	26	**2,223,834**	1,224,085
OPERATING INCOME / (LOSS) BEFORE ZAKAT		**4,262,032**	(6,230,335)
Zakat	19,30	**(811,742)**	(629,682)
NET INCOME / (LOSS) FOR THE YEAR		**3,450,290**	(6,860,017)

The accompanying notes 1 to 33 form an integral part of these financial statements.

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2019	2018 (Restated)
NET INCOME / (LOSS) FOR THE YEAR		**3,450,290**	(6,860,017)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain on employees' post-employment benefits	21.3	**229,475**	302,922
Total other comprehensive income for the year		**229,475**	302,922
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**3,679,765**	(6,557,095)

The accompanying notes 1 to 33 form an integral part of these financial statements.

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals unless otherwise stated)

31 December 2018	Note	Share capital	Statutory reserve	Retained earnings / (Accumulated losses)	Actuarial gain on employees' post-employment benefits	Total equity
Balance as at 1 January 2018 (Audited)		100,000,000	676,668	5,815,607	-	106,492,275
Impact on adoption of IAS 19 employee benefits	30	-	-	(506,538)	-	(506,538)
Transitional adjustment on the adoption of IFRS 9		-	-	(4,092,231)	-	(4,092,231)
Impact of change in accounting policy	30	-	(27,440)	27,440	-	-
Balance as at 1 January 2018 – restated		100,000,000	649,228	1,244,278	-	101,893,506
Net loss for the year – restated				(6,860,017)	-	(6,860,017)
Other Comprehensive income – restated	30	-	-	-	302,922	302,922
Balance as at 31 December 2018 – restated		100,000,000	649,228	(5,615,739)	302,922	95,336,411

31 December 2019	Note	Share capital	Statutory reserve	Accumulated losses	Actuarial gain on employees' post-employment benefits	Total equity
Balance as at 1 January 2019 (Audited)		**100,000,000**	**676,668**	**(4,905,648)**	**-**	**95,771,020**
Impact on adoption of IAS 19 employee benefits	30	**-**	**-**	**(737,531)**	**302,922**	**(434,609)**
Impact of change in accounting policy	30	**-**	**(27,440)**	**27,440**	**-**	**-**
Balance as at 1 January 2019 – restated		**100,000,000**	**649,228**	**(5,615,739)**	**302,922**	**95,336,411**
Net income for the year		**-**	**-**	**3,450,290**	**-**	**3,450,290**
Other Comprehensive income		**-**	**-**	**-**	**229,475**	**229,475**
Transfer to statutory reserve		**-**	**345,029**	**(345,029)**	**-**	**-**
Balance as at 31 December 2019		**100,000,000**	**994,257**	**(2,510,478)**	**532,397**	**99,016,176**

The accompanying notes 1 to 33 form an integral part of these financial statements.

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2019	2018 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income / (loss) before zakat		**4,262,032**	(6,230,335)
Adjustments for:			
Depreciation of right of use assets	15.1	**32,913**	-
Depreciation of property and equipment	13	**189,590**	500,062
Amortization of intangibles	14	**1,079,798**	826,332
Finance cost	24	**1,394,615**	1,319,949
(Reversal) / Impairment on Islamic financing	10.8	**(1,168,747)**	1,501,437
Amortization of deferred charges		**-**	92,370
Write off of property and equipment	26	**401,465**	3,025
Impairment on fair value measurement of assets repossessed held for sale	9	**375,556**	-
Loss on disposal of repossessed assets		**-**	101,118
Provision for employees' post-employment benefits	21.2	**428,397**	504,831
(Increase) / decrease in operating assets			
Prepayments and other receivables		**601,342**	(31,776)
Asset repossessed held for sale		**-**	100,000
Due from a related party		**(5,876,476)**	-
Net investment in Islamic financing		**(30,209,545)**	(50,152,977)
Restricted cash deposit		**(25,720)**	7,194,050
(Decrease)/increase in operating liabilities			
Other payables and accruals		**1,495,946**	58,955
Due to related parties		**(7,166,407)**	4,103,848
Cash used in operating activities		**(34,185,241)**	(40,109,111)
Zakat paid	19	**(420,811)**	(275,563)
Employees' post-employment benefits paid	21.4	**(320,567)**	(191,524)
Net cash used in operating activities		**(34,926,619)**	(40,576,198)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	13	**(144,660)**	(27,460)
Purchase of intangible assets	14	**(244,727)**	(244,727)
Proceeds from disposal of property and equipment		**-**	25,501
Net cash used in investing activities		**(389,387)**	(246,686)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from financial facilities		**82,856,704**	45,000,000
Repayment of financial facilities		**(28,930,951)**	(25,940,417)
Finance cost paid		**(1,451,458)**	(1,326,932)
Lease liabilities paid	15.1	**(35,000)**	-
Proceeds from disposal of Islamic financing portfolio		**-**	24,994,588
Net cash generated from financing activities		**52,439,295**	42,727,239
Net increase in cash and cash equivalents		**17,123,289**	1,904,355
Cash and cash equivalents at beginning of the year	6	**9,503,619**	7,599,264
Cash and cash equivalents at end of the year	6	**26,626,908**	9,503,619

The accompanying notes 1 to 33 form an integral part of these financial statements.

1. LEGAL STATUS AND OPERATIONS

Gulf Finance Company ("the Company") is a Saudi closed Joint-Stock Company formed under the laws of the Kingdom of Saudi Arabia and registered under the commercial register under No. 4030235277 on 28 Dhul Qa'adah 1433H (corresponding to 14 October 2012). On 26 Sha'ban 1435H (corresponding to 24 September 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 & Investment (MOCI) and the Notary Public.

On 15 December 2013 and in accordance with article 6 of the implementing regulations of the law of supervision of finance companies, the Company submitted its application to the Saudi Arabian Monetary Authority (SAMA) to obtain its license as a financing company. On 3 Jumada al-Akhirah 1435H (corresponding to 3 April 2014), the Company obtained the preliminary approval on the license from SAMA. On 16 Safar 1436H (corresponding to 8 December 2014) the Company obtained the license from SAMA to engage in the finance lease activities. The principal of activities of the Company includes financial lease, financing production assets to Small and Medium Enterprises (SMEs).

The Company's Head Office is located at the following address:
Gulf Finance Company
Al Hokair Holding Group Building,
Ground Floor, North Ring Road, Al Murooj Area
P.O. Box 240249
Riyadh 11322
Kingdom of Saudi Arabia

The Company's activities as per the commercial registration 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 has the following branches

S. No	Branch	C.R. No.	Date
1	Riyadh	1010369744	26 Jumada Al-Awwal 1434H
2	Jeddah	7001738363	21 Ramadan 1439H
3	Dammam	2050091775	12 Rajab 1434H

In addition to the above, the Company as of 31 December 2019 has shifted its head office from Jeddah to Riyadh and has obtained No Objection Certificate (NOC) from SAMA in this regard. The Company is under process to obtain updated commercial registration from the Ministry of Commerce and Investment.

2. BASIS OF PREPARATION

2.1. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

On 18 July 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of profit or loss. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB").

Accordingly, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and the effects of this change are disclosed in note 30 to the financial statements.

2. BASIS OF PREPARATION (CONTINUED)

2.1. STATEMENT OF COMPLIANCE (CONTINUED)

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

2.2. BASIS OF MEASUREMENT

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

a) Employees post-employment benefits are recognized at the present value of future obligations using the Projected Unit Credit Method;
b) Investments are measured at fair value; and
c) Assets repossessed held for sale measured at the lower of carrying amount and fair value less cost to sell.

2.3. FUNCTIONAL AND PRESENTATION CURRENCY

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

2.4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

2.4.1. Going concern

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

2.4.2. Determination of discount rate for present value calculations

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

2.4.3. Actuarial valuation of employees' post-employment benefits

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

2. BASIS OF PREPARATION (CONTINUED)

2.4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS (CONTINUED)

2.4.4. Useful lives of property and equipment

The Company's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

2.4.5. Measurement of expected credit loss allowance

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

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

- Determining the criteria for a 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 a group of similar financial assets for the purpose of measuring ECL.

2.4.6. Business model assessment

Classification and measurement of financial assets depend on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company’s continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

2.4.7. Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks, and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relates to the Company’s core operations.

2.4.8. Impairment of net investment in Islamic financing

The Expected Credit Loss (“ECL”) model contains a three-stage approach that is based on the change in the credit quality of financial assets since initial recognition. The ECL model is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

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

2. BASIS OF PREPARATION (CONTINUED)

2.4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS (CONTINUED)

2.4.8. Impairment of net investment in Islamic financing (continued)

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

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

2.4.9. Fair value measurement and valuation process

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes. The Company's management is responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

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

Effective 1 January 2019 the Company has adopted a new accounting standard, the impact of the adoption of the standard is explained below:

IFRS 16 Leases

The Company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard. On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases that had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at 31 December 2018. The net impact on retained earnings on 1 January 2019 was **Nil**.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as of 1 January 2019 as short-term leases.

The Company has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

IAS 19 Employees' Post-Employment Benefits

Effective 1 January 2019 the Company has adopted IAS 19, Employees' post-employment benefits, the impact of the adoption of the standard is explained below:

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

IAS 19 Employees' Post-Employment Benefits (continued)

The liability or asset recognized in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Change in accounting policy in relation to accounting for zakat

As mentioned above, the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of the latest instructions from SAMA dated 18 July 2019. Previously, zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by

SAMA dated 18 July 2019, the zakat shall be recognized in the statement of profit or loss. The Company has accounted for this change in the accounting for zakat retrospectively (see note 2.1) and the effects of the above change are disclosed in note 30 to the financial statements. The change has resulted in the reduction of reported profit of the Company for the period ended 31 December 2018 by SR 629,682. The change has had no impact on the statement of cash flows for the period ended 31 December 2018.

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

There are a number of amendments to standards issued which are effective from 1 January 2020, but they do not have a material effect on the Company's Financial Statements.

5. SIGNIFICANT ACCOUNTING POLICIES

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

5.1. Cash and cash equivalents

Cash and cash equivalents may include cash in hand and at banks and other short-term highly liquid investments, with original maturities of three months or less from the purchase date.

5.2. Leases

Lease arrangements where the Company is a lessor

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

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

Ijara receivables

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease arrangements where the Company is a lessee

The Company has changed its accounting policy for leases. The new policy is described in note 15 and the impact of the change in note 3. Until the 2018 financial year, leases of property and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership been classified as finance leases.

5.3. Financial instruments

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

5.3.1. Financial Assets

Initial measurement

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

Murabaha receivables

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

Subsequent measurement

After initial recognition financial assets can be measured at Amortized cost, Fair value through other comprehensive income (“FVOCI”) or Fair value through profit and loss (“FVTPL”).

Financial Asset at amortized cost

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

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

Financial asset at FVOCI

Debt Instruments

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

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

Equity Instruments

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

Financial Asset at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.3. Financial instruments (Continued)

5.3.1. Financial Assets (Continued)

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

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

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

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

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.3. Financial instruments (Continued)

5.3.1. Financial Assets (Continued)

De-recognition of financial asset

On derecognition of a financial asset in its entirety, the difference between:

- the carrying amount (measured at the date of derecognition) and
- the consideration received (including any new asset obtained less any new liability assumed)

is recognized in profit or loss.

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 recognize a modification gain or loss in the statement of profit or loss. 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 amortized over the remaining term of the modified financial asset.

Reclassification

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.

Impairment

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.

For net investment in Islamic financing, 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 recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is 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 does not have objective evidence of impairment. For these assets, lifetime ECL is recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL is the ECL that result from all possible default events over the maximum contractual period during which the Company is exposed to credit risk. ECL is 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 is recognized 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.3. Financial instruments (Continued)

5.3.1. Financial Assets (Continued)

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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

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

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

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

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

Write-off
Financial assets are written off only when:
(i) there is a recommendation by the collections department and approved by management and board members as per the policy, and
(ii) there is no reasonable expectation of recovery.

Where financial assets are written off, the Company continues to engage in 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.

Regular way contracts
All regular way purchase and sales of financial assets are recognized and derecognized on the trade date i.e. the date on which the Company commits to purchase or sell the assets. Regular way purchase or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

5.3.2. Financial Liabilities

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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.3. Financial instruments (Continued)

5.3.2. Financial Liabilities (Continued)

Classification of financial liabilities (Continued)

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.

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

Subsequent measurement
After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

De-recognition of financial liabilities
Financial liabilities are derecognized when the obligations specified in the contract is discharged, canceled 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 recognized as part of the gain or loss on the extinguishment.

Modification
For financial liabilities, if an exchange or change in the terms of a debt instrument does not qualify for de-recognition it is accounted for as a 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 amortized over the remaining term of the modified liability.

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 recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

5.3.3. Effective interest method

The effective interest method is a method of calculating the amortized cost of financial asset and liability and of allocating interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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.

5.4. Assets repossessed held for sale

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

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

A loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative loss previously recognized.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4. Assets repossessed held for sale (Continued)

A gain or loss not previously recognized by the date of the sale of the repossessed asset is recognized at the date of derecognition.

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

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

5.5. 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 the statement of profit or loss 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 useful lives of the principal classes of assets are as follows:

	Years
Computers and office equipment	3
Furniture and fixture	3
Motor vehicle	4

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

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

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

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

5.6. Intangible assets

Costs associated with maintaining software programs 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.

Intangible assets having definite lives are stated at cost less accumulated amortization and accumulated impairment losses if any. Amortization is charged applying the straight-line method over the useful lives of 3 - 5 years.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.6. Intangible assets (Continued)

Amortization is charged from the month in which the asset is available for use. The residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

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

5.7. Impairment of non-financial assets

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

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

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

5.8. Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of financial liability or financial asset. The Company’s ordinary shares are classified as equity instruments.

5.9. Statutory reserves

In accordance with Company’s By-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to recognize a reserve comprising 10% of its Net Income for the year. As per its By-laws, the Company will cease the contribution when such reserve will reach 30% of its Share Capital.

5.10. Trade payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the 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.

5.11. 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.12. Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia and on the accruals basis. Zakat charge for the year is charged directly to the statement of profit or loss with a corresponding liability recognized in the statement of financial position. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization, refer note 3.

5.13. Financial facilities

Financial facilities are initially recognized at fair value, net of transaction costs incurred. Financial facilities are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in the statement of profit or loss of the period of the financial facilities 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 drawdown 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.

Financial facilities 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 the statement of profit or loss 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.

Financial facilities 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.

5.14. Employees' post-employment benefits

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

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

5.15. Contingent liabilities

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.16. 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) Purchased or originated credit-impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized 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 amortized cost (i.e. net of the expected credit loss provision).

(ii) Processing fee
Processing fees and other operating income represent 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.

(iii) Other operating income is recorded as when incurred.

6. CASH AND CASH EQUIVALENTS

		As at 31 December	
	Note	**2019**	**2018**
Cash at bank	**6.1**	**26,623,908**	9,498,804
Cash in hand		**3,000**	4,815
		26,626,908	9,503,619

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

7. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2019	**2018**
Prepaid office rent	**486,111**	580,392
Prepaid kafala fee	**346,645**	-
Prepaid insurance	**201,055**	376,826
Other Prepayments	**442,714**	531,649
Advance to employees	**3,150**	20,099
Prepaid loan facility fee	**-**	383,250
Deposits	**-**	201,850
Other receivables	**143,657**	130,608
	1,623,332	2,224,674

8. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions during the year

Names of Related Parties	Nature of Relationship	Nature of transactions	Note	2019	2018
Shuaa Capital PSC – U.A.E.	Shareholder – ("Parent Company")	Allocation of software and related cost	**25**	**(184,068)**	(191,499)
		Allocation of other operating expenses		**-**	(86,506)
		Expenses charged by Gulf Finance Company in relation to collection of sold portfolio		**438,065**	67,151
		Finance income	**26**	**681,886**	-
		Facility fees		**-**	-
		Short term financing	**8.1**	**8,000,000**	-
		Transfer of non-performing lease portfolio to the parent company	**10.1**	**-**	24,994,588
		Collections against disposed-off financing portfolio		**(1,949,054)**	(887,856)
Gulf Finance Company PJSC – U.A.E.	Shareholder	Allocation of software and related cost	**25**	**(640,648)**	(439,316)
		Facility fee		**-**	(431,112)
		Allocation of support services relating to IT software		**(372,533)**	(448,529)
		Repayment by Gulf Finance Company		**1,569,235**	431,112
Second Coast Company for Commercial Hotels	Affiliate	Net finance provided under Islamic Financing	**8.2**	**-**	9,500,000
		Profit earned		**944,722**	-
		Profit received		**(475,000)**	
		Purchase of leased asset		**-**	9,500,000
		Repayment by Gulf Finance Company		**-**	(9,500,000)
Fifth Coast Company for Commercial Hotels	Affiliate	Net finance provided under Islamic Financing	**8.2**	**9,000,000**	5,500,000
		Profit earned		**461,250**	-
		Profit received		**(126,903)**	-
		Repayment by the related party		**(9,500,000)**	-
		Purchase of leased asset		**9,000,000**	5,500,000
		Repayment by Gulf Finance Company		**(14,500,000)**	-
First Sabeel Hotels Company	Affiliate	Net finance provided under Islamic Financing	**8.2**	**9,100,000**	-
		Profit earned		**482,014**	-
		Profit received		**(100,708)**	-
		Purchase of leased asset		**7,600,000**	-
		Repayment by Gulf Finance Company		**(7,600,000)**	-
Raibat Al Yasmin Company for Real Estate Investment and Development	Affiliate	Net finance provided under Islamic Financing	**8.2**	**9,500,000**	-
		Profit earned		**412,181**	-
		Profit received		**(235,375)**	-

8. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Transactions during the year

Names of Related Party	Nature of Relationship	Nature of transactions	Note	2019	2018
Shuaa Cayan City Lights for Development & Real Estate Investment Company	Affiliate	Net finance provided under Islamic Financing	**8.2**	**4,508,917**	-
		Profit earned		**58,752**	-
Key Management Personnel	Executives	Salaries and other short-term employee benefits		**3,048,021**	3,404,233
	Directors	Board Remuneration		**200,000**	200,000

Balances as at the year-end

	Nature of balance	Note	As at 31 December 2019	2018
Due from a related party				
Shuaa Capital PSC, U.A.E.	Loan to shareholder	**8.1**	**5,876,476**	-
Due to related parties				
Shuaa Capital PSC, U.A.E.	Collection of the portfolio on behalf of the shareholder		**-**	1,110,353
Gulf Finance Company PJSC, U.A.E.	Allocation of software and related cost		**107,671**	663,725
Fifth Coast Company for Commercial Hotels	Purchase of leased asset		**-**	5,500,000
			107,671	7,274,078

8.1. This represents an unsecured short-term intercompany loan without any asset-backed financing to the Parent Company under an agreement made on 7 February 2019. The loan bears interest of 9.5% per annum and was repayable in 90 days. However, upon the expiry of the term, it was rescheduled by the Company on the request of the Parent Company dated 5 August 2019 for another 180 days and was repayable on 4 November 2019.

Net investment in Islamic financing

The Company has entered into certain Islamic financing agreements with the related parties during the year. These related parties are special purpose vehicles of Shuaa Capital KSA. Due from these related parties against outstanding Islamic financing are included within net investment in Islamic financing and are given below:

	Note	2019	2018
Second Coast Company for Commercial Hotels	**8.2**	**9,969,722**	9,500,000
Fifth Coast Company for Commercial Hotels	**8.2**	**5,334,347**	5,500,000
First Sabeel Hotels Company	**8.2**	**9,481,306**	-
Raibat Al Yasmin Company for Real Estate Investment and Development	**8.2**	**9,676,806**	-
Shuaa Cayan City Lights for Development & Real Estate Investment Company	**8.2**	**4,567,669**	-
		39,029,850	15,000,000

8. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

8.2. The following represents the terms and conditions of short-term financing provided to related parties.

Secured – Ijara	**Note**	**Relationship**	**Effective Interest Rate**	**Tenure**	**Amount Financed**
Second Coast Company for Commercial Hotels	**8.3**	Affiliates	10%	12 months	9,500,000
Fifth Coast Company for Commercial Hotels	**8.4**	Affiliates	10%	12 months	5,000,000
First Sabeel Hotels Company	**8.5**	Affiliates	10%	12 months	7,600,000
					22,100,000
Unsecured – Murabaha					
First Sabeel Hotels Company	**8.6**	Affiliates	10%	12 months	1,500,000
Raibat Al Yasmin Company for Real Estate Investment and Development	**8.7**	Affiliates	10%	12 months	9,500,000
Shuaa Cayan City Lights for Development & Real Estate Investment Company		Affiliates	10%	2 months	3,000,000
Shuaa Cayan City Lights for Development & Real Estate Investment Company		Affiliates	10%	12 months	1,508,917
					15,508,917
					37,608,917

8.3. During the year 2019, the Company has rescheduled the loan for a further period of 12 months. Accrued profit was received at the time of rescheduling.

8.4. During the year 2019, the Company has rescheduled the loan for a further period of 12 months. Accrued profit was received at the time of rescheduling.

8.5. During the year 2019, the Company has rescheduled the loan for a further period of 12 months. Accrued profit was received at the time of rescheduling.

8.6. During the year 2019, the Company has rescheduled the loan for a further period of 12 months. Accrued profit was received at the time of rescheduling.

8.7. During the year 2019, the Company has rescheduled the loan for a further period of 12 months. Accrued profit was received at the time of rescheduling.

9. ASSET REPOSSESSED HELD FOR SALE

The Company has acquired certain assets in the satisfaction of a claim in order to achieve an orderly realization of financing receivables. The Company has filed legal cases against the customers. These repossessed assets are expected to be sold within 12 months from the reporting date.

The Company does not believe to have any contingent liability with regards to the legal case filed by the Company. The assets as of 31 December 2019 and 2018 are carried at lower of carrying amount or net realizable value.

The fair value of the assets was determined using the sales comparison approach. This is a level 2 measurement as per the fair value hierarchy.

31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets held for sale	-	741,000	-	741,000

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets held for sale	-	1,116,556	-	1,116,556

Valuation techniques used to determine level 2 fair values

The Company obtains independent valuations for its repossessed assets on an annual basis. At the end of each reporting period, the management updates their assessment of the fair value of each asset, taking into account the most recent independent valuations. The management determines an asset's value within a range of reasonable fair value estimates. The independent valuation for the year was conducted by Faris M. Aljuaidi Establishment with the license no. 10102584.

The best evidence of fair value is current prices in an active market for similar assets. Where such information is not available the management considers information from variety of sources including:

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

The level 2 fair value of assets held for resale has been derived using the sales comparison approach. The key inputs under this approach are the price from current year sales and utilization of comparable lots of assets in the same industry.

9.1. Movement in repossessed assets held for sale

	2019	**2018**
Opening balance as at 1 January	**1,116,556**	1,317,674
Disposals during the year	**-**	(201,118)
Impairment on fair value measurement	**(375,556)**	-
Balance as 31 December	**741,000**	1,116,556

10. NET INVESTMENT IN ISLAMIC FINANCING

	As at 31 December	
	2019	2018
Financial asset carried at amortized cost		
Murabaha	**21,029,699**	-
Investment classified as a finance lease		
Ijara	**146,394,200**	136,045,607
	167,423,899	136,045,607

10.1. Details of net investment in Islamic financing:

		Ijara		Murabaha		Total	
	Note	2019	2018	2019	2018	2019	2018
Gross investment in Islamic financing	10.2	**174,768,985**	170,595,938	**23,446,398**	-	**198,215,383**	170,595,938
Unearned / Deferred Islamic financing income		**(24,423,293)**	(28,664,226)	**(2,378,386)**	-	**(26,801,679)**	(28,664,226)
		150,345,692	141,931,712	**21,068,012**	-	**171,413,704**	141,931,712
Unearned origination fees		**(1,104,227)**	(1,510,714)	**-**	-	**(1,104,227)**	(1,510,714)
		149,241,465	140,420,998	**21,068,012**		**170,309,477**	140,420,998
Impairment on Islamic financing		**(2,847,265)**	(4,375,391)	**(38,313)**	-	**(2,885,578)**	(4,375,391)
Net investment in Islamic financing		**146,394,200**	136,045,607	**21,029,699**	-	**167,423,899**	136,045,607
Current portion		**76,528,337**	63,206,976	**17,724,859**	-	**94,253,196**	63,206,976
Non-current portion		**69,865,863**	72,838,631	**3,304,840**	-	**73,170,703**	72,838,631

10.2. Includes balances due from related parties (Refer Note 8).

10.3. The maturity of the investment in Ijara is as follows:

	As at 31 December	
	2019	2018
Year 1	**95,240,999**	76,104,143
Year 2	**42,348,760**	36,812,235
Year 3	**28,680,479**	32,683,525
Year 4	**7,977,896**	24,996,035
Year 5 onwards	**520,851**	-
Gross investment in Ijara	**174,768,985**	170,595,938
Less: Unearned income	**(24,423,293)**	(28,664,226)
Net investment in Ijara	**150,345,692**	141,931,712

10. NET INVESTMENT IN ISLAMIC FINANCING (CONTINUED)

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

10.5. The Company assigned Islamic financing receivables as at 31 December 2019 amounting to SR 3.58 million (31 December 2018: SR 0.25 million) to local commercial banks for obtaining financial facilities. These Islamic financing receivables have not been derecognized from the statement of financial position as the Company retains substantially all the risks and rewards, primarily credit risk.

10.6. The title of the assets sold under finance lease agreements is held in the name of the Company. Further, all investments in Islamic financing are secured through personal guarantees.

10.7. The interest rate implicit in the leases is fixed at the contract date of the entire lease term. The average effective interest rate contracted is approximately 9% to 19% per annum (2018: 10% to 19% per annum). The Islamic financing contract term range between 2 months to 48 months (2018: 10 months to 48 months).

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

	Note	2019	2018
Balance at the beginning of the year		**4,375,391**	2,864,181
Transition adjustment on the adoption of IFRS 9		**-**	4,092,231
(Reversed) / provided during the year		**(1,168,747)**	1,501,437
Written off during the year	**10.9**	**(321,066)**	(336,663)
Impairment provision reversal related to investment in Islamic financing transferred	**10.10**	**-**	(3,745,795)
Balance at the end of the year		**2,885,578**	4,375,391

10.9. During the year, the board of directors and management of the Company approved a write-off of net investment in Islamic financing receivable amounting to SR 0.65 million as per the approved policy which includes a direct write off of SR 0.33 million for certain customers. These amounts are subject to enforcement activities.

10.10. On September 30, 2018, the Company transferred certain customer balances within investments in Islamic financing ("transferred investment in Islamic financing") at their net carrying value in a "pass-through arrangement" to Shuaa Capital PSC ("the Parent Company"). Consequent to the transfer, the Company de-recognized such investment in Islamic financing as all the conditions of a pass-through arrangement were met on that date.

Details of the transfer as of 31 December 2018 is as follows:

	2018
Investment in Islamic financing on the date of transfer	28,740,383
Less: Allowance for impairment of investment in Islamic financing	(3,745,795)
Net investment in Islamic financing on the date of transfer	24,994,588

11. RESTRICTED CASH DEPOSITS

The Company has placed these funds as margin deposits for certain financial facilities granted to the Company by counterparty finance providers. The Company also earns a profit on these balances.

	As at 31 December	
	2019	2018
Restricted cash deposit	**355,720**	298,150
Accrued profit on restricted cash deposit	**-**	31,850
	355,720	330,000

12. INVESTMENT CARRIED AT FVOCI

During 2017, in accordance with instructions issued by SAMA, the Company has made an investment in the Saudi Financial Lease Contract Registry Company amounting to SR 892,850. The Company holds 89,285 number of shares (2018: 89,285).

The investment in equity instrument is not held for trading. Instead, held for the medium to long-term purposes. Accordingly, the Company has elected to designate this investment in equity instruments as at FVOCI.

Due to the unavailability of the recent information to determine the fair value of the Company, the cost of the investment is considered to be the best estimate of fair value.

13. PROPERTY AND EQUIPMENT

	2019			
	Computers and office equipment	**Furniture and fixture**	**Motor Vehicle**	**Total**
Cost				
Opening balance	733,097	1,631,151	45,750	2,409,998
Additions	-	144,660	-	144,660
Write off (Note 13.1)	-	(1,338,216)	-	(1,338,216)
As of 31 December 2019	**733,097**	**437,595**	**45,750**	**1,216,442**
Accumulated depreciation				
Opening balance	692,626	1,087,299	45,750	1,825,675
Charge for the year	31,974	157,616	-	189,590
Write off	-	(936,751)	-	(936,751)
As of 31 December 2019	**724,600**	**308,164**	**45,750**	**1,078,514**
Net book value:				
As of 31 December 2019	**8,497**	**129,431**	**-**	**137,928**

13.1. During the year, the board of directors of the Company approved a write-off of furniture and fixture amounting to SR 1.338 million relating to Jeddah Head office comprising of net book value of SR 0.401 million.

	2018			
	Computers and office equipment	**Furniture and fixture**	**Motor Vehicle**	**Total**
Cost				
Opening balance	712,757	1,770,731	45,750	2,529,238
Additions	20,340	7,120	-	27,460
Disposals	-	(146,700)	-	(146,700)
As of 31 December 2018	733,097	1,631,151	45,750	2,409,998
Accumulated depreciation				
Opening balance	576,645	821,392	45,750	1,443,787
Charge for the year	115,981	384,081	-	500,062
Disposals	-	(118,174)	-	(118,174)
As of 31 December 2018	692,626	1,087,299	45,750	1,825,675
Net book value:				
As of 31 December 2018	40,471	543,852	-	584,323

14. INTANGIBLE ASSETS

	2019	2018
	Computer Software	
Cost		
Opening balance	4,337,973	4,093,246
Additions	244,727	244,727
Disposals	-	-
As of 31 December	**4,582,700**	4,337,973
Accumulated amortization		
Opening balance	2,719,297	1,892,965
Charge for the year	1,079,798	826,332
Disposals	-	-
As of 31 December	**3,799,095**	2,719,297
Net book value:		
As of 31 December	**783,605**	1,618,676

15. LEASES

15.1. Amounts recognized in the statement of Financial Position

The statement of financial position shows the following amounts relating to leases:

	2019
Right-of-use assets- Building	
Lease liabilities as at 1 January 2019	-
Prepaid Rent as at 31 December 2018-Reclassified	-
Balance as at 1 January 2019	-
Additions during the period	**197,481**
Balance as at 31 December 2019	**197,481**
Accumulated Depreciation	
Balance as at 1 January 2019	-
Depreciation charge for the period	**(32,913)**
Balance as at 31 December 2019	**(32,913)**
Net Book Value as at 31 December 2019	**164,568**

	2019
Lease Liabilities	
Balance as at 1 January 2019	-
Additions during the period	**197,481**
Charge for the period	**4,104**
Less: Lease payments during the period	**(35,000)**
Balance as at 31 December 2019	**166,585**

15. LEASES (CONTINUED)

15.2. Maturity profile of lease liabilities:

	As at 31 December 2019
Year 1	**70,000**
Year 2	**70,000**
Year 3	**35,000**
Year 4	**-**
Year 5 onwards	**-**
Total undiscounted lease liabilities	**175,000**
Less: Finance cost	**(8,415)**
	166,585

	As at 31 December 2019
Current portion	
Lease liabilities	**64,152**
Non-current portion	
Lease liabilities	**102,433**
	166,585

15.3. Amounts recognized in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2019
Lease financial cost (included in finance cost)	**4,104**
Expense relating to short-term leases (included in General and administrative expenses)	**641,294**
Expense relating to leases of low-value assets that are not short-term leases	**-**
Expense relating to variable lease payments not included in lease liabilities	**-**

The total cash outflow for leases in 2019 was SR 35,000.

15.4. The Company's leasing activities and how these are accounted for

The Company leases buildings for branches. Rental contracts are typically made for fixed periods of 1 year to 4 years but may have extension options as described in (15.5) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for financing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that is based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

15. LEASES (CONTINUED)

15.4. The Company's leasing activities and how these are accounted for (continued)

The lease payments are discounted using the profit rate implicit in the lease if that rate can be determined, or the Company's incremental borrowing rate. The Company has used an incremental borrowing rate of 5%.
Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and;
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

15.5. Extension and termination options

Extension and termination options are included in a number of property leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

15.6. Residual value guarantees

To optimize lease costs during the contract period, the Company sometimes provides residual value guarantees in relation to equipment leases.

16. SHARE CAPITAL

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

	As at 31 December 2019			As at 31 December 2018
Shareholders	**Holding %**	**No. of Shares**	**Amount**	**Amount**
Shuaa Capital PSC, U.A.E	**92%**	9,200,000	92,000,000	92,000,000
Gulf Finance Company PJSC, U.A.E	**5%**	500,000	5,000,000	5,000,000
Shuaa 1 for Commercial Brokerage LLC, U.A.E	**1%**	100,000	1,000,000	1,000,000
Shuaa 2 for Commercial Brokerage LLC, U.A.E	**1%**	100,000	1,000,000	1,000,000
Shuaa 3 for Commercial Brokerage LLC, U.A.E	**1%**	100,000	1,000,000	1,000,000
	100%	**10,000,000**	**100,000,000**	**100,000,000**

17. STATUTORY RESERVE

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

18. OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2019	**2018**
Unclaimed deposits	**1,908,261**	899,669
Accrued expenses	**1,432,329**	556,696
Payable to suppliers	**520,656**	450,487
Others	**11,128**	469,576
	3,872,374	2,376,428

19. PROVISION FOR ZAKAT

The movement in the provision for zakat is as follows:

	2019	**2018**
Balance at the beginning of the year	**654,119**	300,000
Provided during the year	**878,894**	629,682
Reversal of prior year charge	**(67,152)**	-
	811,742	629,682
Payment during the year	**(420,811)**	(275,563)
Balance at the end of the year	**1,045,050**	654,119

STATUS OF ASSESSMENTS

The Zakat returns for the years ended 31 December 2014 till 2017 had been filed and were under review by GAZT. During the current year, upon finalization of the assessment, demand has been raised by GAZT of SR. 259,618 for the years 2014 till 2017. The first payment of SR. 51,923 was made immediately upon receipt of the notice. The remaining amount is payable in equal installments of SR. 41,539 from 2019 to 2023 with the first amount paid on 16 December 2019.

The Zakat return for the year ended 31 December 2018 has been filed and are under review with GAZT. The Company has obtained a certificate from the General Authority for Zakat and Tax valid until 7 Ramadan 1441H corresponding to 30 April 2020.

20. FINANCIAL FACILITIES

	Notes	As at 31 December 2019	2018
Long-term financial facilities	**20.1, 20.3**	**99,177,439**	45,251,686
Finance Cost payable		**91,398**	152,345
		99,268,837	45,404,031

20.1. Maturity profile

	As at 31 December 2019	2018
Current portion		
Long-term financial facilities	**40,909,370**	14,981,239
Non-current portion		
Long-term financial facilities	**58,268,069**	30,270,447
	99,177,439	45,251,686

20.2. Unsecured financial facilities at amortized cost

	As at 31 December 2019	2018
Zero-interest loan	**96,469,317**	45,000,000

Secured financial facilities at amortized cost

	As at 31 December 2019	2018
Murabaha	**2,708,122**	251,686

20.3. The Company obtained bank financial facilities from a local bank for the purpose of financing working capital needs. These bank facilities bear finance costs at market prevailing rates and also have restricted cash deposits. The Company has collateralized certain Islamic financing receivables in order to obtain these financial facilities (Refer Note 10.5)

20.4. During the period, the Company obtained two long-term loan facilities amounting to SR 59 million and 20 million from Social Development Bank, a Saudi Government-owned financial institution. The Company is also required to pay an administrative fee of SR 1.37 million and 0.47 million respectively over the period of loan facilities which has been incorporated equally in each monthly installment. The terms of the loan facility require the management to disburse the amount to its customers against such leases that meet the criteria defined in the facility agreement with Social Development Bank.

20.5. The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 31 December 2019, the Company is in compliance with the covenants of the financing agreements.

21. EMPLOYEES' POST-EMPLOYMENT BENEFITS

	As at 31 December	
	2019	**2018 (Restated)**
The present value of the defined benefit obligation	**1,149,593**	1,271,238

21.1. PRINCIPAL ACTUARIAL ASSUMPTIONS

	2019	**2018**
Discount rate (% per annum)	**3.58%**	5.02%
Rate of change in salary (% per annum)	**7%**	7%
Mortality rates SLIC (2001-2005)	**AM92 Ultimate**	AM92 Ultimate
Employee turnover (withdrawal) rates	**1.76%**	1.82%

21.2. AMOUNT CHARGEABLE TO PROFIT OR LOSS

	2019	**2018**
Past service cost	**(57,149)**	-
Service cost	**416,320**	465,016
Profit on net defined benefit liability	**69,226**	55,109
The total amount charged to statement of profit and loss	**428,397**	520,125

21.3. AMOUNT CHARGED TO OTHER COMPREHENSIVE INCOME

	2019	**2018**
Actuarial Losses / (Gains) due to change in financial assumptions	**141,011**	(113,487)
Actuarial Gains due to experience adjustments	**(370,486)**	(189,435)
Amount charged to other comprehensive income or loss	**(229,475)**	(302,922)

21.4. RECONCILIATION OF THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATION

	2019	**2018**
Balance at the beginning of the period	**1,271,238**	1,245,559
Charge for the year	**198,922**	217,203
Paid during the year	**(320,567)**	(191,524)
Balance at the end of the period/year	**1,149,593**	1,271,238

21. EMPLOYEES' POST-EMPLOYMENT BENEFITS (CONTINUED)

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

	Change in assumption	Increase / (decrease) in present value of employees' post-employment benefit liability	
		Amount	%
Discount rate	+1%	1,048,928	-8.76%
	-1%	1,265,621	10.09%
Long term salary	+1%	1,266,318	10.15%
	-1%	1,046,211	-8.99%
Mortality	120%	1,148,282	-0.11%
	80%	1,150,910	0.11%
Employee turnover rate	+1%	1,112,483	-3.23%
	-1%	1,190,428	3.55%

21.6. Maturity profile:

	2019	2018
Year 1	**77,383**	109,739
Year 2	**92,913**	137,735
Year 3	**108,771**	160,569
Year 4	**139,678**	178,948
Year 5 onwards	**8,565,509**	10,317,971
Total undiscounted defined benefit obligation	**8,984,254**	10,904,962
Less: Finance cost	**(7,834,661)**	(9,633,724)
	1,149,593	1,271,238

The weighted average duration of the defined benefit obligation is 13.6 years.

	2019	2018
Current portion		
Post-employment benefit obligation	**74,708**	105,946
Non-current portion		
Post-employment benefit obligation	**1,074,885**	1,165,292
	1,149,593	1,271,238

22. CONTINGENCIES AND COMMITMENTS

During the year, the Company has offered a loan to its shareholder Shuaa Capital PSC UAE amounting to SR 8 million as disclosed in Note 8. The Loan was provided in contravention of certain of provisions of SAMA as a result the penalties section of the regulation includes possible penalties amounting to SR 250k - SR500K. The Company subsequent to the year end dated 27 February 2020, have submitted a letter to SAMA explaining the fact pattern, and, yet to receive a formal reply. Due to the inability to measure the amount of obligation with sufficient reliability, no provision for the penalties is recognized in the financial statements as at 31 December 2019.

23. INCOME FROM ISLAMIC FINANCING, NET

	2019	2018
Revenue from main operation		
Income from Ijara (Note 23.2)	**14,849,544**	9,200,234
Income from Murabaha	**713,318**	-
	15,562,862	9,200,234

23.1. Directly allocated transaction cost of Islamic financing is amounting to SR 0.04 million (2018: SR 0.2 million).

23.2. Insurance expenses for Ijara financing are amounting to SR 1.34 million (2018: SR 2.86 million).

24. FINANCE COST

	Note	2019	2018
Financial facilities;			
-Murabaha	**20.3**	**148,969**	1,264,214
-Zero interest rate	**20.4**	**1,203,713**	-
Lease liabilities	**15.1**	**4,104**	-
Bank charges		**37,829**	55,735
Net loss on interest rate swap derivatives		**-**	93,210
		1,394,615	1,413,159

25. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2019	2018
Salaries and allowances		**7,427,075**	8,800,456
IT expenses	**8**	**1,092,298**	683,196
Amortization of intangible assets	**14**	**1,079,798**	826,332
Professional and consultancy fees		**658,958**	849,393
Rent		**641,294**	326,239
Traveling		**354,789**	257,064
Depreciation on property and equipment	**13**	**189,590**	500,062
Communication		**234,306**	244,964
Legal fees		**81,733**	220,038
Depreciation on right-of-use assets	**15**	**32,913**	-
Printing and stationary		**24,915**	20,293
Repairs and maintenance		**8,127**	18,786
Other		**1,097,444**	993,235
		12,923,240	13,740,058

26. OTHER INCOME, NET

	Note	2019	2018
Origination fee		**1,423,508**	628,991
Write-off of property and equipment		**(401,465)**	(3,025)
Finance income on loan to shareholder	**8**	**681,886**	-
Profit on restricted deposit		**519,905**	598,119
		2,223,834	1,224,085

27. 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.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.1. Risk management structure

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

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

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

27.2. Market risk

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

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

27.2.1. 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 Islamic financing arrangements are made in Saudi Riyals except for payments 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.

27.2.2. Profit 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.

27.2.3. 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 its issuer, or factors affecting all similar financial instruments traded in the market. As of 31 December 2019 and 2018, the Company has no investments that are exposed to price risk.

27.3. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. 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 that evaluates customers’ creditworthiness and obtains adequate securities where applicable.

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3. Credit risk (continued)

27.3.1. Credit quality analysis

The Company monitors the credit quality of the Islamic financing 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' creditworthiness 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 the quality of the 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. The 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.

The 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 49.7% (2018: 53%) of the outstanding balance of investment in Islamic financing as of 31 December 2019 and 2018. Out of the total assets of SR 204.6 million (2018: SR 152.3 million), the assets which were subject to credit risk amounted to SR 200.4 million (2018: SR 146 million).

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

	Note	Classification	As at 31 December 2019	2018
Net Investment in Islamic Financing	**10**	**Amortized cost**	**167,423,899**	136,045,607
Cash at bank	**6**	**Amortized cost**	**26,623,908**	9,498,804
Due from a related party	**8**	**Amortized cost**	**5,876,476**	-
Restricted cash deposit	**11**	**Amortized cost**	**355,720**	330,000
Other receivables	**7**	**Amortized cost**	**146,807**	150,707
			200,426,810	146,025,118

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

	As at 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Construction	**18,079,992**	**21,911,673**	**3,077,140**	43,068,805
Manufacturing	**3,694,760**	**13,610,507**	**6,713,067**	24,018,334
Commerce	**7,279,054**	**3,088,722**	**4,376,325**	14,744,101
Services	**84,884,572**	**83,133**	**3,510,532**	88,478,237
	113,938,378	**38,694,035**	**17,677,064**	170,309,477

27.3.2. Impairment

Cash at banks and restricted deposits are placed with banks with sound credit ratings which are given in Note 27.3.5. 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 the general impairment ECL model to measure the credit allowances against net investment in Islamic financing which is explained below.

27.3.2.1. 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).

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3. Credit risk (continued)

27.3.2. Impairment (continued)

27.3.2.1. Measurement of ECL (continued)

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 rating 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 installment.

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;

27.3.2.2 Categorization

The Company categorizes its investment in Islamic financing into Stage 1, Stage 2, Stage 3, as described below:

Stage 1: When lease receivables are first recognized, the Company recognizes 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 recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3. Credit risk (continued)

27.3.2. Impairment (continued)

27.3.2.3. 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 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).

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 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 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).

27.3.2.4. Generating the term structure of PD

The Company employs various techniques 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.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3. Credit risk (continued)

27.3.2. Impairment (continued)

27.3.2.5. 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.

27.3.2.6. 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 of 31 December 2019 to develop the base case scenario which the management estimates are 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 the lease receivable have been developed based on analyzing historical data over the past 10 to 15 years.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3. Credit risk (continued)

27.3.3. Modified financial assets

The contractual terms of a lease receivable are mainly modified at 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 Islamic financing 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 the 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 review reports on forbearance activities.

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.

	2019	2018
Financial assets modified since initial recognition		
Gross carrying amount at 31 December of financial assets for which lease receivable has changed to 12-month measurement during the year	**896,567**	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 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.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3. Credit risk (continued)

27.3.4. Net investment in Islamic financing

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

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

The aging of net investment in Islamic financings contracts net-off unearned origination fee is as under:

	2019	2018
Neither past nor due	**99,749,006**	104,993,945
Past due 1-30 days	**14,189,372**	4,778,893
Past due 31-90 days	**38,694,035**	14,575,294
Past due 91-180 days	**2,080,971**	11,724,589
Past due 181-365 days	**12,062,313**	4,348,277
Past due over 1 year	**3,533,780**	-
	170,309,477	140,420,998
Less: Impairment for Islamic financing	**(2,885,578)**	(4,375,391)
Net of Impairment loss	**167,423,899**	136,045,607
Total portfolio coverage ratio	**1.69%**	3.12%

Net investment in Islamic financing and the corresponding ECL allowance as at 31 December 2019 classified into is as follows:

	2019			
	Stage 1	Stage 2	Stage 3	Total
Carrying amount before ECL	**113,938,378**	**38,694,035**	**17,677,064**	**170,309,477**
ECL	**403,931**	**230,727**	**2,250,920**	**2,885,578**

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

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

	As at 31 December	
	2019	2018
Performing	**152,632,413**	124,348,132
Non-performing	**17,677,064**	16,072,866
	170,309,477	140,420,998

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3. Credit risk (continued)

27.3.4. Net investment in Islamic financing (continued)

The movement in provision for impairment for Islamic financing receivables is as follows:

	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	**527,825**	**331,590**	**3,515,976**	**4,375,391**
Transfer from stage 1	**(62,269)**	**38,172**	**24,097**	**-**
Transfer from stage 2	**13,725**	**(218,638)**	**204,913**	**-**
Transfer from stage 3	**225,880**	**343,277**	**(569,157)**	**-**
Financial assets – settled during the year	**(19,286)**	**(182,167)**	**(610,740)**	**(812,193)**
Financial assets – originated during the year	**197,052**	**24,486**		**221,538**
Net re-measurement of loss allowance	**(470,177)**	**(31,707)**	**(76,208)**	**(578,092)**
	(115,075)	**(26,577)**	**(1,027,095)**	**(1,168,747)**
Write-off during the year	**(8,819)**	**(74,286)**	**(237,961)**	**(321,066)**
31 December 2019	**403,931**	**230,727**	**2,250,920**	**2,885,578**

	Stage 1	Stage 2	Stage 3	Total
January 1, 2018	37,616	558,697	6,360,100	6,956,413
Transfer from stage 1	(5,338)	3,561	1,777	-
Transfer from stage 2	200,843	(275,576)	74,733	-
Transfer from stage 3	281,907	925,647	(1,207,554)	-
Financial assets – settled during the year	(999)	(14,018)	(41,495)	(56,512)
Financial assets – originated during the year	504,430	-	-	504,430
Net re-measurement of loss allowance	(479,880)	(832,289)	2,365,687	1,053,518
Transfer to parent company	-	-	(3,745,795)	(3,745,795)
	500,963	(192,675)	(2,552,647)	(2,244,359)
Write-off during the year	(10,754)	(34,432)	(291,477)	(336,663)
31 December 2018	527,825	331,590	3,515,976	4,375,391

Concentration risk

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company manages its credit risk exposure through diversification of Islamic financing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.
The concentration of the Company's customer into business sectors on the basis of percentage of the outstanding balance of investment in Islamic financing as at 31 December is as follows:

	2019	2018
Construction	**25.29%**	39.46%
Manufacturing	**14.10%**	17.02%
Commerce	**8.66%**	8.19%
Services	**51.95%**	35.33%
	100.00%	100.00%

Collateral held as security and other credit enhancements

The credit risks on gross amounts due in relation to the investment in Islamic financing is mitigated by holding collaterals which are leased assets and real-estate. Further, the carrying amount of investment in Islamic Financing amounts against which collateral has been obtained amounts to SR 154.54 million (31 December 2018: 142.15 million) and the fair value of collateral amounting to SR 384.88 million as at 31 December 2019 (31 December 2018: 209.28 million). The Company is not permitted to sell or repledge the collateral in the absence of default by the lessee. There have not been any significant changes in the quality of the collateral.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.3. Credit risk (continued)

27.3.5. Bank Credit Rating

The credit quality of the Company's bank balances is assessed with reference to external credit ratings which, in all cases, are above investment-grade rating. Other receivables are neither significant nor exposed to significant credit risk. No ECL was taken for restricted cash deposits and bank balances as the impact of the ECL was not material.The bank balances along with credit ratings are tabulated below:

	As at 31 December	
	2019	**2018**
Cash at bank:		
A-	**2,890,017**	8,328,145
BBB+	**23,733,891**	1,170,659
Restricted cash deposit:		
A-	**355,720**	330,000
	26,979,628	9,828,804

27.4. 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 trade payables, due to related parties, financial facilities and other payables and accruals. Trade payables, due to related parties and other payables and accruals aggregating SR 6.9 million (2018: SR 9.6 million) have a short-term maturity. The Company expects to have adequate liquid funds to settle its current liabilities through close monitoring due to both current assets and current liabilities.

Following is the contractual maturities of undiscounted cash flows of financial liabilities as at 31 December 2019 and 2018:

	2019				
Contractual maturities of financial liabilities	**Carrying amount**	**Contractual cash flows**	**Up to three months**	**More than three months and up to one year**	**More than one year**
Non-derivative					
Other payables and accruals	**3,872,374**	**3,872,374**	**3,872,374**	**-**	**-**
Financial facilities	**99,268,837**	**100,994,700**	**9,297,835**	**32,779,149**	**58,917,716**
Due to a related party	**107,671**	**107,671**	**107,671**	**-**	**-**
	103,248,882	**104,974,745**	**13,277,880**	**32,779,149**	**58,917,716**

	2018				
Contractual maturities of financial liabilities	**Carrying amount**	**Contractual cash flows**	**Up to three months**	**More than three months and up to one year**	**More than one year**
Non-derivative					
Other payables and accruals	2,376,428	2,376,428	2,376,428	-	-
Financial facilities	45,404,031	45,404,031	3,885,040	11,248,544	30,270,447
Due to related parties	7,274,078	7,274,078	7,274,078	-	-
	55,054,537	55,054,537	13,535,546	11,248,544	30,270,447

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.4. Liquidity risk (continued)

Analysis of financial assets and liabilities based on maturities

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

	As at 31 December 2019			
	Carrying amounts	**Up to three months**	**More than three months and up to one year**	**More than one year**
Cash and cash equivalents	**26,626,908**	**26,626,908**	**-**	**-**
Prepayments and other receivables	**1,623,332**	**612,229**	**1,011,103**	**-**
Due from a related party	**5,876,476**	**5,876,476**	**-**	**-**
Net investment in Islamic financing	**167,423,899**	**25,105,995**	**69,147,201**	**73,170,703**
Restricted cash deposit	**355,720**	**-**	**-**	**355,720**
Investment carried at FVOCI	**892,850**	**-**	**-**	**892,850**
Financial assets	**202,799,185**	**58,221,608**	**70,158,304**	**74,419,273**
Other payables and accruals	**3,872,374**	**3,872,374**	**-**	**-**
Due to a related party	**107,671**	**107,671**	**-**	**-**
Financial facilities	**99,268,837**	**9,102,286**	**31,898,482**	**58,268,069**
Financial liabilities	**103,248,882**	**13,082,331**	**31,898,482**	**58,268,069**
Maturity gap	**99,550,303**	**45,139,277**	**38,259,822**	**16,151,204**
Cumulative maturity gap	**99,550,303**	**45,139,277**	**83,399,099**	**99,550,303**

	As at 31 December 2018			
	Carrying amounts	**Up to three months**	**More than three months and up to one year**	**More than one year**
Cash and cash equivalents	9,503,619	9,503,619	-	-
Prepayments and other receivables	2,224,674	1,242,803	981,871	-
Due from a related party	-	-	-	-
Net investment in Islamic financing	136,045,607	47,721,487	15,485,489	72,838,631
Restricted cash deposit	330,000	330,000	-	-
Investment carried at FVOCI	892,850	-	-	892,850
Financial assets	148,996,750	58,797,909	16,467,360	73,731,481
Other payables and accruals	2,376,428	2,376,428	-	-
Due to related party	7,274,078	7,274,078	-	-
Financial facilities	45,404,031	3,885,040	11,248,544	30,270,447
Financial liabilities	55,054,537	13,535,546	11,248,544	30,270,447
Maturity gap	93,942,213	45,262,363	5,218,816	43,461,034
Cumulative maturity gap	93,942,213	45,262,363	50,481,179	93,942,213

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

27.5 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 (financial facilities as detailed in Note 20 off-set 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 the 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.

	2019	**2018**
Aggregate financing to capital ratio (Net investment in Islamic financing divided by total equity)	**1.69 times**	1.59 times

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

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

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

All financial assets and liabilities are measured at amortized cost except investment carried at FVOCI. The carrying amounts of all other financial assets and financial liabilities measured at amortized cost approximate to their fair values.

2019	Fair value Level			
	1	2	3	Total
FINANCIAL ASSET				
FVOCI designated				
Investment carried at FVOCI	**-**	**-**	**892,850**	**892,850**

2018	Fair value Level			
	1	2	3	Total
FINANCIAL ASSET				
FVOCI designated				
Investment carried at FVOCI	-	-	892,850	892,850

The above financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined:

Financial assets / financial liabilities	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship and sensitivity of unobservable inputs to fair value
Investment carried at FVOCI	Cost	N/A	N/A

29. RECLASSIFICATION OF PRIOR PERIOD FIGURES

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

30. RESTATEMENT OF PRIOR PERIOD FIGURES

Zakat

As set out in note 2.1, the Company has changed its accounting policy to recognize zakat for the year to profit or loss. Previously, zakat was charged to statement of changes in equity in retained earnings.

Impact on Statement of Comprehensive Income

For the year ended 31 December 2018

	2018	2017
Loss before zakat for the year	(6,230,335)	(225,636)
Zakat for the year	(629,682)	(274,404)
Adjusted loss for the year	**(6,860,017)**	**(500,040)**

30. RESTATEMENT OF PRIOR PERIOD FIGURES (CONTINUED)

Impact on Statement of Financial Position and Statement of Changes in Equity

As at 31 December 2017, the below is the restatement impact on the comparative financial statements

	Before adjustment	2017	After adjustment
Statutory reserve as at 31 December 2017	676,668	(27,440)	649,228
Retained earnings as at 31 December 2017	5,815,607	27,440	5,843,047

As at 31 December 2018, the below is the restatement impact on the comparative financial statements

	Before adjustment	2018	2017	After adjustment
Statutory reserve as at 31 December 2018	676,668	-	(27,440)	649,228
Accumulated losses as at 31 December 2018	(4,905,648)	-	27,440	(4,878,208)

IAS 19 – Employee Benefits

As explained in note 3, effective 1 January 2019 the Company has adopted IAS 19, Employees' post-employment benefits, the impact of the adoption of the standard is shown below:

Impact on Statement of Comprehensive Income

For the year ended 31 December 2018

	2018	2017	Total
(Loss) / Income before zakat for the year	(5,999,342)	280,902	
Additional charge for employees' post-employment benefits	(230,993)	(506,538)	(737,531)
Adjusted loss for the year	(6,230,335)	(225,636)	
Actuarial gain on employees' post-employment benefits	302,922	-	302,922
Net effect	**(71,929)**	**506,538**	**434,609**

Impact on Statement of Financial Position and Statement of Changes in Equity

As at 31 December 2017, the below is the restatement impact on the comparative financial statements

	Before adjustment	2017	After adjustment
Retained earnings as at 31 December 2017	5,815,607	(506,538)	5,309,069
Employees' post-employment benefits	739,021	506,538	1,245,559

As at 31 December 2018, the below is the restatement impact on the comparative financial statements

	Before adjustment	2018	2017	After adjustment
Accumulated losses as at 31 December 2018	(4,905,648)	(230,993)	(506,538)	(5,643,179)
Employees' post-employment benefits	836,629	(71,929)	506,538	1,271,238

The impact on the statement of cash flow due to the restatement was not material.

31. ISLAMIC FINANCING RECEIVABLES – SERVICING AND SECURITY AGENCY AGREEMENTS

In accordance with the terms of servicing and security agency agreement, the Company has transferred certain Islamic financing 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 Islamic financing receivables as a servicer and security agent in accordance with the agency agreements entered into with the Parent Company. The Company is continuing to manage these sold receivables for an agreed fee which is netted-off with the related cost of servicing these Islamic financing receivables sold to Parent Company.

The outstanding position of such off statement of financial position Islamic financing receivables is as follows:

	2019	2018
Islamic financing receivables transferred to the parent company	**22,391,244**	24,045,716

32. SUBSEQUENT EVENTS

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Company's IFRS9 estimates of expected credit loss provisions in 2020.

33. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 13 May 2020G (corresponding to 20 Ramadan 1441H) by the Board of Directors of the Company.