AJIL Financial Services Company
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS

31 DECEMBER 2018

Ernst & Young & Co. (Certified Public Accountants)
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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of AJIL Financial Services Company (A Saudi Closed Joint Stock Company) (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") 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 professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the regulations for Companies in the Kingdom of Saudi Arabia and Company's By-laws, and for such internal control as Directors 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, Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AJIL FINANCIAL SERVICES COMPANY
(A Saudi Closed Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We also:

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

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

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

- Conclude on the appropriateness of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the regulations for Companies and Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

28 February 2019
23 Jumada II 1440H

Jeddah
18/31/MNA

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	***2018 SR***	*2017 SR*
Revenues	21	**180,615,510**	171,748,118
OPERATING EXPENSES			
Credit loss on finance lease	6	**(34,343,358)**	(20,500,868)
Credit loss on murabaha financing	7	**(2,319,669)**	(416,308)
Depreciation	10	**(1,696,477)**	(1,714,065)
Amortization	11	**(1,575,306)**	(1,209,156)
General and administrative expenses	22	**(56,704,912)**	(56,073,516)
Financial costs	23	**(35,905,298)**	(52,774,664)
		(132,545,020)	(132,688,577)
NET PROFIT FOR THE YEAR		**48,070,490**	39,059,541

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	***2018*** ***SR***	*2017* *SR*
Profit for the year		**48,070,490**	39,059,541
Other comprehensive (loss) / income:			
Items not to be reclassified to statement of profit or loss in subsequent periods:			
Re-measurement losses on employees' defined benefit liabilities	16	**-**	(1,006,200)
Total other comprehensive loss for the year		**-**	(1,006,200)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**48,070,490**	38,053,341

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	***2018***	*2017*
		SR	*SR*
ASSETS			
Cash and bank balances	4	**31,157,148**	46,918,342
Advances, prepayments and other receivables	5	**145,013,264**	183,558,965
Net investment in finance lease	6	**1,290,751,329**	1,742,997,783
Murabaha financing receivables	7	**206,954,244**	41,214,534
Margin deposits	8	**1,669,860**	14,707,025
Property and equipment	10	**4,419,130**	5,648,516
Intangible assets	11	**2,336,070**	2,914,545
Equity investment at fair value through other comprehensive income	12	**892,850**	892,850
Due from related parties	18	**-**	844,113
TOTAL ASSETS		**1,683,193,895**	2,039,696,673
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	**500,000,000**	500,000,000
Statutory reserve	14	**98,148,053**	93,341,004
Retained earnings		**283,792,185**	310,295,046
Actuarial losses on employees' defined benefit liabilities	16	**(2,947,200)**	(2,947,200)
TOTAL EQUITY		**878,993,038**	900,688,850
LIABILITIES			
Trade and other payables	17	**121,522,231**	63,348,729
Due to related parties	18	**5,562,309**	2,865,522
Net servicing liability for sold finance lease receivable	9	**2,810,024**	1,712,027
Short term loans	19	**612,600,000**	967,777,080
Zakat and income tax	20	**47,723,840**	88,739,607
Employees' defined benefit liabilities	16	**13,982,453**	14,564,858
TOTAL LIABILITIES		**804,200,857**	1,139,007,823
TOTAL EQUITY AND LIABILITIES		**1,683,193,895**	2,039,696,673

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

2018	*Notes*	***Saudi shareholders - SR***	***Foreign shareholders - SR***	***Total SR***
SHARE CAPITAL				
Balance as at 1 January 2018 and 31 December 2018	13	**375,000,000**	**125,000,000**	**500,000,000**
STATUTORY RESERVE	14			
Balance as at 1 January 2018		**70,005,753**	**23,335,251**	**93,341,004**
Transferred from retained earnings		**3,605,287**	**1,201,762**	**4,807,049**
Balance as at 31 December 2018		**73,611,040**	**24,537,013**	**98,148,053**
RETAINED EARNINGS				
Balance as at 1 January 2018		**233,716,173**	**76,578,873**	**310,295,046**
IFRS 9 first time adoption impact (Note 6.11)		**(30,824,275)**	**(10,274,758)**	**(41,099,033)**
Balance as at 1 January 2018 (restated)		**202,891,898**	**66,304,115**	**269,196,013**
Net profit for the year		**36,052,867**	**12,017,623**	**48,070,490**
Zakat and income tax		**(3,605,287)**	**(3,644,842)**	**(7,250,129)**
Prior year adjustments related to zakat		**(17,339,578)**	**-**	**(17,339,578)**
Dividend	15	**(17,339,578)**	**(4,077,562)**	**(21,417,140)**
Reimbursement of prior period zakat from shareholders		**17,339,578**	**-**	**17,339,578**
Transferred to statutory reserve		**(3,605,287)**	**(1,201,762)**	**(4,807,049)**
Balance as at 31 December 2018		**214,394,613**	**69,397,572**	**283,792,185**
ACTUARIAL LOSSES ON EMPLOYEES' DEFINED BENEFIT LIABILITIES				
Balance as at 1 January 2018		**(2,210,400)**	**(736,800)**	**(2,947,200)**
Other comprehensive income for the year	16	**-**	**-**	**-**
Balance as at 31 December 2018		**(2,210,400)**	**(736,800)**	**(2,947,200)**
TOTAL EQUITY		**660,795,253**	**218,197,785**	**878,993,038**
2017				
SHARE CAPITAL				
Balance as at 1 January 2017 and 31 December 2017	13	375,000,000	125,000,000	500,000,000
STATUTORY RESERVE	14			
Balance as at 1 January 2017		67,076,288	22,358,762	89,435,050
Transferred from retained earnings		2,929,465	976,489	3,905,954
Balance as at 31 December 2017		70,005,753	23,335,251	93,341,004
RETAINED EARNINGS				
Balance as at 1 January 2017		240,151,048	79,228,263	319,379,311
Net profit for the year		29,294,656	9,764,885	39,059,541
Zakat and income tax		(5,492,427)	(3,533,106)	(9,025,533)
Prior year adjustments related to zakat and income tax		(19,453,625)	(3,100,951)	(22,554,576)
Dividend	15	(27,307,639)	(7,904,680)	(35,212,319)
Reimbursement of prior period zakat from shareholders	15	19,453,625	3,100,951	22,554,576
Transferred to statutory reserve		(2,929,465)	(976,489)	(3,905,954)
Balance as at 31 December 2017		233,716,173	76,578,873	310,295,046
ACTUARIAL LOSSES ON EMPLOYEES' DEFINED BENEFIT LIABILITIES				
Balance as at 1 January 2017		(1,455,750)	(485,250)	(1,941,000)
Other comprehensive loss for the year	16	(754,650)	(251,550)	(1,006,200)
Balance as at 31 December 2017		(2,210,400)	(736,800)	(2,947,200)
TOTAL EQUITY		676,511,526	224,177,324	900,688,850

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	*2018* *SR*	*2017* *SR*
OPERATING ACTIVITIES			
Profit for the year		**48,070,490**	39,059,541
Adjustments for:			
Depreciation	10	**1,696,477**	1,714,065
Amortization	11	**1,575,306**	1,209,156
Credit loss on finance lease	6	**34,343,358**	20,500,868
Credit loss on murabaha financing receivables		**2,319,669**	416,308
Employees' defined benefit liabilities	16	**1,698,513**	1,889,108
Gain on disposal of property and equipment		**(1,861)**	(80,347)
Change in provisions in respect of margin deposits	8	**(1,490,566)**	(1,232,518)
Income in respect of sold finance lease receivables		**(13,047,936)**	(16,606,145)
Operating profit before changes in operating assets and liabilities		**75,163,450**	46,870,036
Changes in operating assets and liabilities:			
Net investment in finance leases		**350,021,838**	445,434,639
Murabaha financing receivables		**(168,059,379)**	(41,630,842)
Advances, prepayments and other receivables		**51,780,010**	5,724,602
Margin deposits		**28,075,647**	31,472,516
Due from related parties		**844,113**	(844,113)
Trade and other payables		**1,596,838**	(8,826,966)
Due to related parties		**2,696,787**	(21,052,822)
Net servicing liability for sold finance lease receivables		**14,145,933**	22,581,548
Cash from operations		**356,265,237**	479,728,598
Zakat and income tax paid	20	**(9,028,810)**	(8,582,986)
Employee's defined benefits paid	16	**(2,280,918)**	(3,355,754)
Net cash from operating activities		**344,955,509**	467,789,858
INVESTING ACTIVITIES			
Purchase of equity investment at fair value through other comprehensive income	12	**-**	(892,850)
Purchase of property and equipment and intangible assets	10 & 11	**(1,469,096)**	(3,700,150)
Proceeds from disposal of property and equipment		**7,035**	80,347
Net cash used in investing activities		**(1,462,061)**	(4,512,653)
FINANCING ACTIVITIES			
Net movement in short term borrowings		**(355,177,080)**	(462,221,592)
Dividends paid	15	**(4,077,562)**	(12,657,743)
Net cash used in financing activities		**(359,254,642)**	(474,879,335)
NET DECREASE IN CASH AND BANK BALANCES		**(15,761,194)**	(11,602,130)
Cash and bank balances at the beginning of the year	4	**46,918,342**	58,520,472
CASH AND BANK BALANCE AT THE END OF THE YEAR		**31,157,148**	46,918,342

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

1 ACTIVITIES

AJIL Financial Services Company (the "Company" or "AJIL") is registered in the Kingdom of Saudi Arabia under commercial registration number 4030122889, dated 30 Rajab 1418H (corresponding to 30 November 1997). The legal status of the Company was changed from a Limited Liability Company to a Closed Joint Stock Company under Ministerial Declaration number 206/Q, dated 18 Jumad Thani 1429H (corresponding to 22 June 2008), and according to Companies Law Provisions issued by Royal Decree number M/6 dated 27 Thul Quada 1417H (corresponding to 5 April 1997).

A new commercial registration certificate under the same number was issued by the Ministry of Commerce on 11 Rajab 1429H (corresponding to 14 July 2008).

The objectives of the Company are to engage in financing activities including leasing (and other related products) of projects in the industrial, transportation, agriculture, trading sectors and other skilled professions along with finance leasing of fixed and moveable assets including but not limited to industrial buildings, warehouses, production equipment, machinery, medical equipment, building equipment, transportation equipment, all kinds of vehicles, office equipment and computers.

The Company's Head Office is located at the following address;

AJIL Financial Services Company
Jeddah 101 Building
Sari Street
P.O. Box 13624
Jeddah 21414
Kingdom of Saudi Arabia

On 21 Rajab 1435H (corresponding to 20 May 2014), the Company received a license from the Saudi Arabian Monetary Authority ("SAMA") to conduct lease financing business in the Kingdom of Saudi Arabia. The Finance Companies Control Law was issued by the Saudi Council of Ministers through its publication No. 259 dated 12 Shabaan 1433H (corresponding to 2 July 2012) and the Royal Decree No. 51 dated 13 Shabaan 1433H (corresponding to 3 July 2012) and their implementing regulations were issued by SAMA for conducting lease financing business in the Kingdom of Saudi Arabia.

On 01 Muharram 1439H (corresponding to 21 Sep 2017), the Company received a no objection certificate from SAMA to conduct commodity murabaha business in the Kingdom of Saudi Arabia.

These financial statements include the results, assets and liabilities of the following branches:

Commercial Registration Number	Location
2050044861	Dammam
2051031244	Al-Khobar
5850027895	Abha
1010194653	Riyadh
1010424579	Riyadh
4030612980	Jeddah

2 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

During 2017, the Saudi Arabian Monetary Authority ("SAMA") issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat and income tax. The impact of these amendments is that Zakat and income tax are to be accrued on a quarterly basis through statement of changes in equity under retained earnings.

Applying the above framework, the financial statements of the Company as at and for the year ended 31 December 2018 have been prepared:

i) In accordance with International Financial Reporting Standards ("IFRSs") as modified by the Saudi Arabian Monetary Authority ("SAMA") for accounting of zakat and income tax, which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard ("IAS") 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax.

2 BASIS OF PREPARATION (continued)

2.1 STATEMENT OF COMPLIANCE (continued)

ii) In compliance with the applicable requirements of the regulations for Companies in the Kingdom of Saudi Arabia and Company's By-laws.

The Company has adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018. Impact upon adoption of these standards and accounting policies for these new standards are disclosed in note 3.

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

2.2 BASIS OF MEASUREMENT

These financial statements have been prepared on a historical cost convention using accrual basis of accounting, except for the measurement at fair value of 'Investment classified as fair value through other comprehensive income (FVOCI)'

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.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that may require a material adjustment to the carrying amount of related assets or liabilities, in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company's management. Such changes are reflected in the assumptions when they occur.

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.

Determination of servicing assets / liability

The Company enters into securitization and agency arrangements with banks. Under these arrangements, the Company has been appointed by the banks to service the receivables purchased by the banks. Assumptions used to calculate the servicing assets/ liability are based on estimates of collection costs to be incurred by the Company over the life of the individual securitization and agency transaction, executed under the respective securitization and agency agreement.

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 is based on the specific circumstances of the Company.

Actuarial valuation of employee benefits liabilities

The cost of the end-of-service ("employee benefits") under defined unfunded benefit plan is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, defined unfunded benefit liabilities are 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 JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Credit losses of finance lease and murabaha financing receivables
Impairment of finance lease and murabaha financing receivable requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's model for determination of defaults, which assigns loss rate (LR) to the individual pool of receivables and assessing the exposure at default (EAD).
- The Company's criteria for assessing the credit losses for finance leases and murabaha financing receivables to be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment.
- The segmentation of finance leases and murabaha financing receivables when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the appropriate inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as government spending, and the effect on LR.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

At the reporting date, outstanding finance lease receivables and murabaha finance receivable were SR 1.63 billion (31 December 2017: SR 1.96 billion) and SR 209.69 million (31 December 2017: SR 41.63 million), respectively and the allowance for credit losses relating to finance lease and murabaha finance receivable amounts to SR 336.88 million (31 December 2017: SR 218.75 million) and SR 2.74 million (31 December 2017: SR 0.42 million), respectively.

Any difference between the amounts actually collected in future periods and the amounts expected to be collected will be recognised in the statement of profit or loss of those periods.

Classification of financial assets
Assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

Useful lives of property and equipment
The 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 charge would be adjusted where the management believes the useful lives differ from previous estimates.

Useful life of intangible assets
The Company's management determines the estimated useful lives of its intangible assets for calculating amortisation. This estimate is determined after considering the expected benefit obtained from the usage of the intangible assets. Management reviews the carrying value and useful lives annually and future amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the Company's financial statements for the year ended 31 December 2017, except for:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2018 the Company has adopted following accounting standards and interpretations, the impact of the adoption of these standards and interpretations is explained below:

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

The management conducted an exercise and concluded that there is no material impact on transition to IFRS 15 on 1 January 2018.

The Company has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard.

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

Classification of financial assets and financial liabilities

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

Financial liabilities
IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all the fair value changes of liabilities designated under the fair value option were recognised in statement of income, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income OCI; and
- The remaining amount of change in the fair value is presented in statement of income.

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

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Company to record an allowance for ECLs for all lease receivables, murabaha financing receivables and other debt financial assets not held at FVIS, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

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

- Comparative periods have not been restated.

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

  i. The determination of the business model within which a financial asset is held.
  ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVIS.
  iii. The designation of certain investments in equity instruments not held for trading as FVOCI.

It is assumed that the credit risk has not increased significantly for those debt instruments / securities who carry low credit risk at the date of initial application of IFRS 9.

Financial assets and financial liabilities

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

Financial Asset
The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets as at 1 January 2018. During the year ended 31 December 2018, there has been no change in the categories of classification of Company's financial assets, under IFRS 9.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value
			SR	
Cash and bank balances	Held to maturity	Amortized cost	46,918,342	46,918,342
Advances, prepayments and other receivables	Loans and receivables	Amortized cost	183,558,965	183,558,965
Murabaha financing receivables	Held to maturity	Amortized cost	41,214,534	41,214,534
Margin deposits	Held to maturity	Amortized cost	14,707,025	14,707,025
Due from related parties	Loans and receivables	Amortized cost	844,113	844,113
Equity investment classified as available for sale	Available for sale	Fair value through other comprehensive income	892,850	892,850

There were no reclassification/re-measurement differences in respect to the carrying amounts of financial assets and financial liabilities under IFRS 9 as compared to IAS 39.

Financial liabilities
Classification and carrying value for the financial liabilities is same as at 31 December 2017 under IAS 39 and 1 January 2018 under IFRS 9.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

ii. Impact on impairment allowance for financial assets
The following table reconciles the credit losses recorded as per the requirements of IAS 39 to that of IFRS 9:

- The closing impairment allowance for financial assets in accordance with IAS 39 at 31 December 2017; to
- The opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	IAS 39 carrying amount as at 31 December 2017	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
		SR	
Amortized cost			
Credit loss on finance lease	218,748,932	41,099,033	259,847,965
Credit loss on murabaha financing receivables	416,308	-	416,308
Credit loss on margin deposits	33,709,822	-	33,709,822
Total impairment allowance against financial assets	**252,875,062**	**41,099,033**	**293,974,095**

b) AMENDMENTS TO THE EXISTING STANDARDS

Moreover, the Company adopted the following amendments to existing standards, which had no significant financial impact on the financial statements of the Company on the current period or prior period and is expected to have no significant effect in future periods:

- Amendments to IFRS 2 – "Share based payments", applicable for the annual periods beginning on or after 1 January 2018. The amendments address three main areas:
  - The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
    - The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.
  - The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
  - The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.
    - The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. Any difference (whether a debit or a credit) between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in statement of income.
- IFRIC 22 – "Foreign Currency Transactions and Advance Consideration", the interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration.
- Amendments to IFRS 7 – "Financial Instruments: Disclosures"

  IFRS 7 Financial Instruments: Disclosures which was updated to reflect the differences between IFRS 9 and IAS 39, was also adopted by the Company together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures, detailed qualitative and quantitative information about the ECL calculations such as the assumptions used, are set out in Note 3.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies adopted for the preparation of these financial statements are as follows:

Property and equipment
Property and equipment are initially recorded at cost and stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of other property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets. Capital work-in-progress is not depreciated.

Leasehold assets are depreciated on a straight line basis over the shorter of the useful life of the assets or the term of the lease after deducting the estimated residual value from the cost of such assets. The following rates of depreciation are applied:

Office equipment	20% to 25%
Furniture and fixtures	15%
Owned and leased motor vehicles	20%

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repairs and maintenance are charged to the statement of profit or loss. Expenditure that increases the value or materially extends the life of the related assets is capitalized.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The assets’ residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that an intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

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

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Net investment in finance leases
The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Gross investment in finance leases represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments, discounted at commission rate implicit in the lease.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net investment in finance leases (continued)
Contracts based on Musharaka, which in substance represents a syndicated lease arrangement, is recorded as net investment in finance lease and is stated at cost and represent the balance of the Company's share in the Musharaka funding.

Murabaha financing receivables
Murabaha is an Islamic form of financing where the Company, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Company's cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments.

Cash and bank balances
Cash and bank balances in the statement of financial position comprise cash at banks in current accounts and cash on hand.

Financial instruments

Classification of financial assets

On initial recognition, a financial asset is classified as amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through statement of income ("FVIS").

Financial asset at amortised cost

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

- 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 at FVIS:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); 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 FVIS
All other financial assets are classified as measured at FVIS.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVIS 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 period after the Company changes its business model for managing the financial assets.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, 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;

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business model assessment (continued)

- 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; and
- 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.

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 realised 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.

Assessments whether contractual cash flows are solely payments of principal and profit ("SPPI" criteria)

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 lending risk associated with the principal amount outstanding during a particular period and other basic lending 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 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.

Classification of financial liabilities

Upon initial recognition, the Company classifies its financial liabilities, as measured at amortised cost.

Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through income statement or if the Company adopts to measure a liability at fair value through income statement as per the requirements of IFRS 9.

Amortized cost

Lease and murabaha receivables and other financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective profit method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in statement of income.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in statement of income on derecognition of such securities. Any profit in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

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

Financial liabilities
The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability recognized with modified terms is recognised in statement of income.

Impairment

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

- financial assets that are debt instruments; and
- loan commitments issued, if any.

No impairment loss is recognised on equity investments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

The Company measures loss allowances at an amount equal to lifetime ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The key inputs into the measurement of ECL are based on the following variables:

- Loss rate
- Exposure at default (EAD)

The Company categorizes its leasing and murabaha portfolio into four groups depending on the size of financing and associated risks:

- Large exposure of large customers
- Medium exposure of large customers
- Small exposure of large customers
- Exposure of small and medium customers

The Company also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as expert judgement, macroeconomic factors (e.g., government expenditure, oil prices, inflation, manufacturing purchasing manager's index and money supply) and economic forecasts obtained through internal and external sources.

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date; an estimate of lifetime loss is made, considering the loss rate, exposure at defaults, taking into account the forward looking information i.e. the macro-economic factor;
- 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 inflows.

Restructured financial assets

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit-impaired financial assets

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

A financial asset that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, financial assets that are overdue for 720 days or more are considered impaired, unless evidence to the contrary exists.

Presentation of allowance for ECL in the statement of financial position

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

Financial assets measured at amortised cost

- as a deduction from the gross carrying amount of the assets;

Financial instrument includes both on statement of financial position (SOFP) and off SOFP component

- where the Company cannot identify the ECL on the off SOFP commitment component (in respect of sold finance lease receivables) separately from those on the on SOFP component, the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the on SOFP component.

Write-off

Lease, murabaha receivables and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as bank guarantees, personal guarantees and other non-financial assets. The Company’s accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Company’s statement of financial position. The fair value of collateral is considered for the calculation of ECLs. The value of the collateral is determined at inception and subsequently as and when considered necessary.

Collateral repossessed

The Company’s accounting policy under IFRS 9 remains the same as it was under IAS 39. The Company’s policy is to determine whether a repossessed asset can be sold or relent. Assets for which selling is determined to be a better option are sold in line with the Company’s policy and any difference in the amount lent and assets sold is recorded in the statement of profit or loss.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Dividend distributions
The Company recognizes a liability to make cash dividends distribution to shareholders when the dividends are authorised and no longer at the discretion of the Company. The corresponding amount is directly recognized in statement of changes in equity.

Expenses
General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company. They include salaries and other employee benefits, rent, consultancy charges, communication and others.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective profit rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective profit rate method.

Employees' terminal benefits - Net employee defined benefit liabilities
This represents end of service benefits plan.

End-of-service benefits as required by Saudi Arabian Labor Law are required to be provided based on the employees' length of service.

The Company's net obligations in respect of defined unfunded benefit plans (End-of-service-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 periods; 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 bonds at the reporting date that have 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 unrecognised re-measurement gains and losses as the entire re-measurement gains and losses are recognised as income or expense in the statement of other comprehensive income during the year in which they arise.

Zakat and income tax
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 accruals basis. Zakat charge for year is charged directly to the statement of changes in equity 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

Transactions in foreign currencies
Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are presented on a net basis only when permitted under International Financial Reporting Standards, or for gains and losses arising from a group of similar transactions.

Revenue recognition
Leasing
Gross investment in finance lease represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments discounted at profit rate implicit in the lease. The difference between the gross investment and the net investment is recognised as unearned finance income. Finance lease income is recognised over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding. Direct costs incurred to generate lease finance income are netted off from earned lease income.

Income from Musharaka and securitization and agency agreements
Income from Musharaka includes the Company's share of distributable profits and management fees and is recognized under the terms of the agreements on an accrual basis.

Income from securitization and agency arrangements represents gains or losses on de-recognition of financial assets including income on amortization of net servicing asset.

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

4 CASH AND BANK BALANCES

	2018 SR	*2017 SR*
Cash in hand	**133,087**	162,438
Bank balances	**31,024,061**	46,755,904
	31,157,148	46,918,342

5 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	2018 *SR*	*2017* *SR*
Advance payments, net (see below)	**134,411,974**	170,553,850
Prepaid expenses	**4,018,867**	5,083,160
Advances to employees	**3,452,585**	3,529,419
Other receivables	**3,129,838**	4,392,536
	145,013,264	183,558,965

Advance payments mainly represents advance payments made net of amounts payable to banks and musharaka partners under various musharaka, securitization and agency agreements.

6 NET INVESTMENT IN FINANCE LEASES

	2018 *SR*	*2017* *SR*
Gross investment in finance leases	**1,785,669,429**	2,238,213,548
Less: unearned finance income	**(158,036,831)**	(276,466,833)
Net investment in finance leases (before credit loss on finance leases)	**1,627,632,598**	1,961,746,715
Less: credit loss on finance leases (see note 6.1)	**(336,881,269)**	(218,748,932)
Net investment in finance leases	**1,290,751,329**	1,742,997,783

6 NET INVESTMENT IN FINANCE LEASES (continued)

The contractual maturity of the gross investment in finance lease and net investment in finance leases is as follows:

	Years	*Gross Investment SR*	*Unearned finance income SR*	*Net investment (before provision for lease losses) SR*	*Provision for lease losses SR*	*Net investment SR*
Current portion	**2019**	**1,165,833,719**	**(90,431,785)**	**1,075,401,934**	**(219,183,454)**	**856,218,480**
Non-current portion	**2020**	**382,439,758**	**(44,364,012)**	**338,075,746**	**(72,619,765)**	**265,455,981**
	2021	**161,224,072**	**(15,474,019)**	**145,750,053**	**(30,614,114)**	**115,135,939**
	2022	**47,385,709**	**(5,322,355)**	**42,063,354**	**(8,997,859)**	**33,065,495**
	2023	**28,786,171**	**(2,444,660)**	**26,341,511**	**(5,466,077)**	**20,875,434**
Total non-current portion		**619,835,710**	**(67,605,046)**	**552,230,664**	**(117,697,815)**	**434,532,849**
31 December 2018		**1,785,669,429**	**(158,036,831)**	**1,627,632,598**	**(336,881,269)**	**1,290,751,329**

	Years	*Gross investment SR*	*Unearned finance income SR*	*Net investment (before provision for lease losses) SR*	*Provision for lease losses SR*	*Net investment SR*
Current portion	2018	1,387,836,076	(180,644,772)	1,207,191,304	(137,304,454)	1,069,886,850
Non-current portion	2019	471,484,426	(67,578,731)	403,905,695	(45,532,388)	358,373,307
	2020	274,631,065	(24,126,629)	250,504,436	(26,272,122)	224,232,314
	2021	78,052,003	(4,041,118)	74,010,885	(7,059,207)	66,951,678
	2022	26,209,978	(75,583)	26,134,395	(2,580,761)	23,553,634
Total non-current portion		850,377,472	(95,822,061)	754,555,411	(81,444,478)	673,110,933
31 December 2017		2,238,213,548	(276,466,833)	1,961,746,715	(218,748,932)	1,742,997,783

6 NET INVESTMENT IN FINANCE LEASES (continued)

6.1 The movement in provision for lease losses is given below:

	2018	*2017*
	SR	*SR*
At the beginning of the year	**218,748,932**	198,248,064
IFRS 9 first time adoption impact (Note 6.11)	**41,099,033**	-
At the beginning of the year (revised)	**259,847,965**	198,248,064
Provided during the year	**34,343,358**	20,500,868
Transfers (see 6.10 below)	**56,178,299**	-
Written-off during the year	**(13,488,353)**	-
At the end of the year	**336,881,269**	218,748,932

6.2 As at 31 December 2018, 17.2% of the gross investment in finance leases are with the top 5 customers (2017: 15.7%).

6.3 As at 31 December 2018, finance leases amounting to SR Nil are secured against letters of credit and bank guarantees (2017: SR 8.3 million).

6.4 The Company has entered into securitization and agency agreements with certain banks whereby the Company has sold to the banks certain investments in finance leases, with partial recourse to the extent of margin deposits with the banks under the securitization and agency agreements. The total value of the sold investments in finance lease receivables during the year has been netted off against amounts received from the banks under the securitization and agency agreements to buy the finance lease receivables from the Company. Due to the partial recourse available to the banks, the Company recognizes a liability against margin deposits maintained with the banks.

The Company is appointed by the banks to service the lease receivables purchased by them, and the corresponding net servicing asset and liability are disclosed on the statement of financial position.

6.5 The Company has entered into Musharaka agreements with certain investors to finance its leasing business under syndication arrangements. In accordance with the provisions of these agreements, syndicate investors participate in underlying leasing transactions and share the income generated from these syndicate leases on an agreed sharing basis. According to the syndication arrangement, the Company is responsible for the management and record keeping of the syndicate businesses. Accordingly, all the leasing documents, including collaterals, are signed by the customers in the name of the Company.

Total outstanding balance of such agreements as at 31 December 2018 amounted to SR 600.83 million (2017: SR 886.81 million). The Company recorded these transactions as net investment in finance leases up to the extent of its share in the Musharaka arrangement. As at 31 December 2018, the investments in Musharaka, amounted to SR 66.5 million (2017: SR 61.1 million), which represents the Company's maximum exposure in respect of these agreements.

The amount recognized as investment in Musharaka is stated at cost, which represents the balance of the Company's share in the Musharaka funding. The Company's share in the Musharaka income for the year amounted to SR 10 million (2017: SR 20.8 million). The income from such Musharaka is recognized on an accrual basis and is included in the earned lease income (see note 21).

6.6 Gross investment in finance leases include an amount of SR 21.6 million (2017: SR 26.1 million) due from related parties (see note 18).

6.7 The Company in ordinary course of its business, holds collateral in respect of the finance lease receivables (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.

6 NET INVESTMENT IN FINANCE LEASES (continued)

6.8 As at 31 December 2018, the outstanding net finance lease receivables were SR 1,628 million (2017: SR 1,962 million) and the provision for lease losses was SR 337 million (2017: SR 219 million). Moreover the past due finance lease receivables as at 31 December 2018 were SR 598 million (2017: SR 567 million). Out of these past due finance lease receivables, SR 207 million (2017: SR 263 million) were past due for a period of 6 months or less, SR 125 million (2017: SR 107 million) were past due for a period of more than six months but less than twelve months and SR 266 million (2017: SR 197 million) were past due more than one year.

6.9 During the year ended 31 December 2018 the Company bought back certain securitised finance lease receivables amounting to SR 67.4 million (2017: SR 171.9 million). Consequently, related margin deposits SR 43.9 million (2017: SR 51.31 million), bank guarantees SR Nil (2017: SR 15.15 million) and advances to banks SR 27.3 million (2017: SR 74.08 million) have been released by the respective banks and a net amount of SR 3.8 million was received by the Company from (2017: SR 46.51 million was paid by the Company to) these banks. Previously, the Company securitized these receivables with the respective banks and was managing these receivables for an agreed fee. The buy-back transactions resulted in the net gain of SR 3.04 million (2017: SR 1.8 million), which was mainly on account of reversal of net servicing liability and provision in respect of fair value of margin deposits.

6.10 During the year ended 31 December 2018, following IFRS 9 requirements and SAMA’s direction, the Company decided to forego the suspension of income against the delinquent lease receivables and accordingly utilized the accumulated balance of suspended income amounting to SR 42.6 million. Moreover, SR 13.6 million was transferred from provision against expected defaults in respect of sold finance lease receivables.

6.11 Until the last quarter of 2018, the management could not assess certain available information appropriately, necessary for estimating the expected credit losses as at 1 January 2018 (i.e. upon adoption of IFRS 9), and as a result corrected the opening balance of retained earnings and credit loss on finance lease retrospectively, i.e. by adjusting the opening balance of retained earnings as on 1 January 2018, with an amount of SR 41,099,033. Accordingly, the opening retained earnings reported in the interim financial statements of the Company for the period ended 31 March, 30 June and 30 September 2018 have been adjusted. The restated balances of opening retained earnings and credit loss on finance lease amounts to SR 269,196,013 and SR 259,847,965 as on 1 January 2018, respectively.

7 MURABAHA FINANCING RECEIVABLES

	2018	*2017*
	SR	*SR*
Murabaha financing receivables	**226,131,687**	42,931,640
Less: unearned finance income	**(16,441,466)**	(1,300,798)
	209,690,221	41,630,842
Less: provision for murabaha impairment losses for the year (note 7.1)	**(2,735,977)**	(416,308)
Murabaha financing receivables	**206,954,244**	41,214,534

7 MURABAHA FINANCING RECEIVABLES (continued)

7.1 The movement in credit loss on murabaha financing receivables is given below:

	2018 ***SR***	*2017* *SR*
At the beginning of the year	**416,308**	-
Provided during the year	**2,319,669**	416,308
At the end of the year	**2,735,977**	416,308

7.2 The murabaha financing receivables are mainly short term in nature and are maturing within twelve months from the statements of financial position date.

8 MARGIN DEPOSITS

	2018 ***SR***	*2017* *SR*
Margin deposits with banks	**24,894,119**	52,969,766
Less: Provision against expected defaults in respect of sold finance lease receivables (see note 6.4)	**(21,122,453)**	(33,709,822)
Provision in respect of fair value of margin deposits	**(2,101,806)**	(4,552,919)
	1,669,860	14,707,025

The Company has placed these funds in restricted bank accounts against receivables sold to the banks as required under certain securitization and agency agreements. This amount represents the maximum liability (against defaulted receivables, if any) of the Company according to the relevant securitization and agency agreements (see note 6).

9 NET SERVICING ASSETS FOR SOLD FINANCE LEASE RECEIVABLES

Assumptions and their sensitivity involved in the calculation of net servicing assets/ liability

Under the securitization and agency agreements, the Company has been appointed by the banks to service the purchased receivables. Where the Company is appointed to service the derecognized financial assets for a fee, the Company initially recognises either a net servicing asset or a net servicing liability for that servicing contract at its fair value.

The fair value of net servicing asset/ liability is determined based on the present value of estimated future cash flows related to contractually specified servicing fees less servicing costs. The primary determinants of the fair value of net servicing asset/ liability are discount rates, estimates of servicing costs and the fixed servicing fees.

Discount rates
Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration the expectation of investor’s return and the individual risks of the underlying assets. Such discount rates are adjusted for defaults and prepayments rates based on publicly available market data.

Servicing costs
The management assesses the cost of servicing including salaries and other direct costs. The annual change in the servicing cost represents the increment to the servicing cost as a result of inflation. Also, the calculation of discount rate and servicing cost is sensitive to expected default rate and prepayment risk, which are expected to be minimal.

Variations in one or a combination of these assumptions could materially affect the estimated values of net servicing assets. Evaluation of impairment is performed on a quarterly basis taking into consideration historical trends, past experience and forecasts of defaults and prepayments.

10 PROPERTY AND EQUIPMENT

	Office equipment SR	*Furniture and fixtures SR*	*Leased vehicles SR*	*Motor vehicles SR*	*Capital work in progress SR*	***Total 2018 SR***	*Total 2017 SR*
Cost:							
At the beginning of the year	7,554,708	5,759,351	1,002,710	724,847	856,696	**15,898,312**	14,288,893
Additions	327,480	379,062	-	-	621,214	**1,327,756**	3,379,674
Disposals	(178,559)	-	-	-	-	**(178,559)**	(242,851)
Transfers (see note 11)	539,003	-	-	-	(1,394,494)	**(855,491)**	(1,527,404)
At the end of the year	8,242,632	6,138,413	1,002,710	724,847	83,416	**16,192,018**	15,898,312
Depreciation:							
At the beginning of the year	4,462,951	4,366,155	1,002,710	417,980	-	**10,249,796**	8,778,582
Charge for the year	1,057,107	545,480	-	93,890	-	**1,696,477**	1,714,065
Relating to disposals	(173,385)	-	-	-	-	**(173,385)**	(242,851)
At the end of the year	5,346,673	4,911,635	1,002,710	511,870	-	**11,772,888**	10,249,796
Net book amounts:							
At 31 December 2018	**2,895,959**	**1,226,778**	**-**	**212,977**	**83,416**	**4,419,130**	
At 31 December 2017	3,091,757	1,393,196	-	306,867	856,696		5,648,516

11 INTANGIBLE ASSETS

	2018 *SR*	*2017* *SR*
Cost:		
At the beginning of the year (see note below)	**8,437,358**	6,589,478
Additions during the year	**141,340**	320,476
Transferred from capital work in progress (see note 10)	**855,491**	1,527,404
At the end of the year	**9,434,189**	8,437,358
Amortization:		
At the beginning of the year	**(5,522,813)**	(4,313,657)
Amortized during the year (see note below)	**(1,575,306)**	(1,209,156)
At the end of the year	**(7,098,119)**	(5,522,813)
Net carrying value	**2,336,070**	2,914,545

Intangible assets represent costs incurred with respect to the acquisition of software license fee. Intangible assets are being amortized over a useful life of 5 years.

12 EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 14 December 2018, the Company subscribed to 2.38% shareholding in Saudi Company for Registration of Financial Leasing Contracts ("Registration Company"), registered in the Kingdom of Saudi Arabia. The Registration Company has been formed for registration of contracts relating to financial leases, amendments, registration and transfer of title deeds of the assets under the finance leases. Other finance and leasing Companies, registered in the Kingdom of Saudi Arabia, also have a pro-rata ownership interest in the Registration Company.

12 (a) Investment at fair value is classified under level 3 of the fair value hierarchy.

13 SHARE CAPITAL

The share capital of the Company is divided into 50,000,000 shares (2017: 50,000,000) of SR 10 each.

The shareholding structure of the Company is as follows:

Shareholders

	Ownership Percentage	*2018* *SR*	*2017* *SR*
Saudi:			
Riyad Bank	35%	**175,000,000**	175,000,000
Zahid Group Holding Company Limited	25%	**125,000,000**	125,000,000
Al – Wasilah Rent A Car Company Limited	5%	**25,000,000**	25,000,000
Khaled Ahmed Al – Juffali Company	5%	**25,000,000**	25,000,000
Al – Yemni Motors Company Limited	5%	**25,000,000**	25,000,000
Non-Saudi:			
MC Netherlands Leasing and Finance B.V	20%	**100,000,000**	100,000,000
Mitsubishi UFJ Lease & Finance Company Limited	5%	**25,000,000**	25,000,000
		500,000,000	500,000,000

13 SHARE CAPITAL (continued)

13.1 Subsequent to year end on 28 January 2019, Riyad Bank, Zahid Group Holding Company Limited and Al–Yemni Motors Company Limited agreed to purchase shares from non-Saudi shareholders as per following details:

a) Outgoing shareholders

Name of shareholders	Number of shares offered for sale	Percentage of shares offered for sale
MC Netherlands Leasing and Finance B.V	10,000,000	20%
Mitsubishi UFJ Lease & Finance Company Limited	2,500,000	5%

b) New shareholding after the transfer of shares

Name of shareholders	% of existing shares	Existing shares	Pro-rata Purchase	Shares purchased further	New % of shareholding	New no. of shares
Riyad Bank	35%	17,500,000	13.46%	6,730,769	48.46%	24,230,769
Zahid Group Holding Company Limited	25%	12,500,000	9.62%	4,807,692	34.62%	17,307,692
Al – Yemni Motors Company Limited	5%	2,500,000	1.92%	961,539	6.92%	3,461,539
Al – Wasilah Rent A Car Company Limited	5%	2,500,000	-	-	5%	2,500,000
Khaled Ahmed Al – Juffali Company	5%	2,500,000	-	-	5%	2,500,000
Total						**50,000,000**

Legal formalities for the transfer of shares are expected to be completed by 31 March 2019. Upon successful completion of this process, the Company will be fully owned by Saudi Shareholders.

14 STATUTORY RESERVE

As required by the regulations for Companies and Company's By-laws, 10% of the income (before zakat and income tax) 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, up to 30% of the share capital, is not available for distribution.

15 DIVIDEND

The shareholders in their general assembly meeting held on 27 May 2018 (2017: 25 May 2017), approved the distribution of gross dividend of SR 0.61 per share (2017: SR 0.86 per share) totaling SR 30.44 million (2017: SR 43.0 million). The dividend was paid net of zakat amounting to SR 5.49 million (2017: SR 4.9 million) and income tax amounting to SR 3.53 million (2017: SR 2.8 million) to Saudi and non-Saudi shareholders, respectively.

16 EMPLOYEES' DEFINED BENEFIT LIABILITIES

	2018 SR	*2017 SR*
Present value of unfunded defined benefit liabilities	**13,982,453**	14,564,858

16 EMPLOYEES' DEFINED BENEFIT LIABILITIES (continued)

The major financial assumptions used to calculate the defined unfunded benefits plan (end-of-service benefits) liabilities are as follows:

Principal actuarial assumptions	***2018***	*2017*
Discount rate	**4.50%**	3.60%
General salary increases	**5.00%**	5.00%

a) The movements in defined benefit liabilities recognized in the statement of financial position are as follows:

	2018 ***SR***	*2017* *SR*
Net liability at the beginning of the year	**14,564,858**	15,025,304
Commission cost on plan liabilities	**473,180**	502,700
Current service cost	**1,225,333**	1,386,408
Benefits paid during the year	**(2,280,918)**	(3,355,754)
Actuarial losses on employees' defined benefit liabilities recognized during the year	**-**	1,006,200
Net liability at the end of the year	**13,982,453**	14,564,858

b) The amounts recognised in the statement of profit or loss in respect of defined unfunded benefits plan are as follows:

	2018 ***SR***	*2017* *SR*
Employer's part of current service cost	**1,225,333**	1,386,408
Commission cost on net defined benefit liability	**473,180**	502,700
	1,698,513	1,889,108

Sensitivity analysis
Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit liabilities by the amounts shown below.

End of service benefits	**31 December 2018**		31 December 2017	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	1,425,304	1,725,576	2,060,000	2,560,000
Future salary growth (1% movement)	1,698,738	1,431,532	2,495,000	2,053,000

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

17 TRADE AND OTHER PAYABLES

	2018 ***SR***	***2017*** ***SR***
Reimbursable to Shareholders (please see note below)	**56,576,664**	-
Trade payables	**25,502,757**	30,812,386
Accrued expenses	**29,151,723**	27,732,253
Payable to a bank in respect of sold finance lease receivables	**7,913,503**	2,580,669
Advance from customers	**2,377,584**	2,223,421
	121,522,231	63,348,729

17 TRADE AND OTHER PAYABLES (continued)

The amount will be reimbursed to Saudi Shareholders, upon issuance of final Zakat Certificate for the years from 2014 to 2018.

18 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties (other related parties).

A summary of significant balances with related parties included in the statement of financial position are as follows:

Related party	***Particulars***	***2018 SR***	*2017 SR*
Shareholder	Cash at bank	**415,429**	20,344,461
Shareholder	Gross investment in finance leases	**-**	964,922
Shareholder	Accrued expenses and other liabilities	**(1,604,274)**	(3,524,464)
Shareholder	Investments in Musharika	**2,368,437**	268,690
Others	Investments in Musharika	**948,920**	256,391
Others	Gross investment in finance leases	**21,592,656**	26,076,254
Others	Accounts payable	**5,562,309**	2,021,409
Others	Murabaha financing	**3,150,000**	-
Shareholder	Short term loans	**155,000,000**	400,000,000

The following are the details of the significant transactions with related parties during the year:

Related party	***Nature of transaction***	***2018 SR***	*2017 SR*
Shareholder	Purchases for leasing business	**1,582,385**	1,291,000
Shareholder	Financial costs	**9,129,528**	13,000,631
Shareholder	Short-term loans repaid, net	**(245,000,000)**	-
Others	Purchases for leasing business	**301,167,073**	457,520,469
Others	Leasing transactions	**-**	823,470
Others	Payment for rental and support services	**1,868,601**	2,301,504
Others	Murabaha financing	**3,150,000**	-

18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The transactions with related parties are approved by the Company's management. Balances arising from above transactions are as follows:

Due to related parties

	2018 *SR*	*2017* *SR*
Others:		
Zahid Tractor and Heavy Machinery Company Limited	**4,644,728**	-
Saudi Company of Site Technology Limited	**664,321**	655,272
Altaaqa Alternative Solutions company Limited	**215,250**	-
Juffali Printing Systems Company	**38,010**	487,106
The Machinery Group L.L.C.	-	1,723,144
	5,562,309	2,865,522

Due from related parties

	2018 *SR*	*2017* *SR*
Zahid Tractor & Heavy Machinery Co Ltd.	-	844,113
	-	844,113

Due from related parties (included in net investment in finance leases)

	2018 *SR*	*2017* *SR*
Global Gypsum Company Limited	**17,751,855**	17,772,768
Khaled Ahmed Al Juffali Industrial Company	**1,742,490**	72,756
Wared Express Company Limited	**1,142,006**	4,068,119
Wared Transport Company	**598,272**	3,655,613
Khaled Ahmed Al Juffali Holding Company	**236,734**	315,643
Khaled Ahmed Juffali Construction Company	**121,299**	181,460
Juffali Printing Systems Ltd.	**-**	9,895
	21,592,656	26,076,254

Remuneration of key management personnel of the Company

Remuneration of the key management executives for the year ended 31 December 2018 was SR 5.09 million (2017: SR 6.13 million). The remuneration paid to the secretary of the Board of Directors during the year ended 31 December 2018 was SR 0.5 million (2017: SR 0.6 million).

19 SHORT TERM LOANS

	2018 *SR*	*2017* *SR*
Short term loans	**612,600,000**	967,777,080

These represent short term loans drawn from various local banks against credit lines of SR 2,657 million (2017: SR 2,728 million). These facilities carry fixed special commission rate and are repayable within 11 months (2017: 10 months) from the statement of financial position date. These facilities are collateralized against promissory notes issued by the Company.

20 ZAKAT AND INCOME TAX

a) Zakat

Movement in provision during the year

The movement in zakat provision for the year was as follows:

	2018 *SR*	*2017* *SR*
At the beginning of the year	**86,277,596**	66,273,905
Provided during the year	**3,605,287**	5,492,427
Prior year adjustments	**17,339,578**	19,453,625
Payments during the year	**(5,260,048)**	(4,942,361)
Reimbursable to shareholders (note 17)	**(56,576,664)**	-
At the end of the year	**45,385,749**	86,277,596

b) Income tax

Income tax charge relating to the non-Saudi shareholders, amounting to SR 5.8 million (2017: SR 6.6 million), consists of the current year provision, which has been provided for based on the estimated taxable profit at 20% (2017: 20%). Temporary differences arise mainly from provisions disallowed for tax purposes.

Movements in provision during the year

The movement in tax provision for the year was as follows:

	2018 *SR*	*2017* *SR*
At the beginning of the year	**2,462,011**	(531,421)
Provided during the year	**3,644,842**	3,533,106
Prior year adjustments	**-**	3,100,951
Advance income tax paid	**(3,768,762)**	(3,640,625)
At the end of the year	**2,338,091**	2,462,011

20 ZAKAT AND INCOME TAX (continued)

Status of assessments

The Company has finalized its zakat and tax assessments proceedings up to the year ended 31 December 2008.

The Company has received an assessment for the years ended 31 December 2009 and 2010, requesting for additional tax and Zakat liability, amounting to SR 1.72 million and SR 4.5 million, respectively. The Company accepted certain adjustment made by the General Authority of Zakat and Tax ("GAZT") and settled an amount of SR 0.04 million for 2009 and SR 2,815 for 2010. The Company submitted an objection in respect of additional zakat claim amounting to SR 1.68 million for the year 2009 and SR 4.5 million for the year 2010. The GAZT rejected the Company's objection for both the years and transferred appeal to the Preliminary Appeal Committee (PAC). In 2014, the PAC rejected the Company's appeal and the Company raised the appeal to the Higher Appeal Committee (HAC).

HAC has partially decided the case in favor of the Company by allowing deduction for value of non-current portion of net investment in in finance lease. Upon request of the Company, the GAZT issued revised assessment based on HAC decision. While the GAZT allowed deduction of long-term portion of the net investment in finance lease, the GAZT also added short-term borrowings (equal to the amount of long-term portion of the net investment in finance leases). The Company filed objection against the revised assessment with the GAZT. At the same time, the Company raised their concern on the revised assessment with the Ministry of Finance. The GAZT has responded that since the HAC decision has already been issued by Ministry of Finance, therefore, the HAC decision is conclusive. The matter is still pending with the Ministry of finance and management is looking forward for their response.

The GAZT issued assessments for the years ended 31 December 2011 and 31 December 2012 requesting for additional Zakat and Income Tax. The Company submitted an appeal to the PAC against the assessments issued by the GAZT for these years. Recently, PAC in its decision agreed with the company's contentions not to add short-term loan and allowed partial deduction of liabilities outstanding for more than one year from the Zakat base which should reduce Zakat and Tax claim to approximately SAR 24.3 million. However, the GAZT has not issued revised assessment based on the PAC decision. The Company has also filed an appeal to the HAC against the other disputed matters.

Zakat returns for the years ended 31 December 2013 to 2017 have been filed and are currently under review by the GAZT.

21 REVENUES

	2018 *SR*	*2017* *SR*
Earned lease income (see note 6 and note 'a' below)	**159,309,071**	154,483,478
Net income from finance lease receivables sold to the banks (see note 25)	**13,047,936**	16,606,145
Income from murabaha financing	**8,258,503**	658,495
	180,615,510	171,748,118

a. Earned lease income is net of the insurance expense of SR 18.9 million (2017: SR 25.3 million).

b. Revenue is generated from markets within Kingdom of Saudi Arabia.

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 *SR*	*2017* *SR*
Salaries and other employee's benefits	**42,516,362**	43,479,169
Rent (see note 26)	**3,483,615**	3,437,861
Consultancy charges	**2,494,250**	2,469,166
Communication	**1,474,200**	929,442
Others	**6,736,485**	5,757,878
	56,704,912	56,073,516

23 FINANCIAL COSTS

The Company incurred financial costs on short term loans (note 19) and bank charges during the year amounting to SR 31.55 million (2017: SR 50.25 million) and SR 4.36 million (2017: SR 2.52) respectively.

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's achieving profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to market risk, credit risk, and liquidity risk.

24.1 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and equity price risk.

Commission rate risk
Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market commission rates. As at 31 December 2018 and 31 December 2017, the Company is not exposed to significant commission rate risk as its special commission bearing assets and liabilities carry fixed rates.

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

Equity price risk
The Company is not exposed to other price risk such as equity risk and commodity risk as the Company is neither involved in investment in trading securities nor the commodities.

24.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk on cash and bank balances, net investment in finance lease, murabaha financing receivables, due from related parties, net deferred consideration receivable, employees' receivables and other receivables. The Company has established procedures to manage credit exposure including, credit approvals, credit limits, collateral and guarantee requirements. These procedures are based on the Company's internal guidelines.

Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers.

The Company manages concentration of credit risk exposure through diversification of activities and sale of future net investment in finance lease receivables to different banks through purchase and agency agreements. However, the Company mitigates its credit risk through evaluation of credit worthiness internally and by obtaining promissory notes and by retaining the title of the asset leased out. An allowance for doubtful finance lease and murabaha financing receivable is maintained at a level which, in the judgment of management, is adequate to provide for impairment losses on delinquent receivables.

All finance leases are secured mainly through promissory notes and by retaining the title of the assets leased out and generate a fixed rate of commission for each contract. The title of the assets under finance lease agreements is held in the name of the Company as collateral to be repossessed, in case of default by the customer. For credit risk arising from financial assets of the Company, including sold lease receivables – under securitization and agency arrangements (to the extent of margin deposits or guarantee amount – note 6).

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

24.2 Credit risk (continued)

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

24.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that adequate bank facilities are available to meet any commitments, as they arise.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2018, based on contractual payment dates:

2018	***Less than 3 months SR***	***3 to 12 months SR***	***No fixed maturity SR***	***Total SR***
Trade and other payables	**121,522,231**	**-**	**-**	**121,522,231**
Due to related parties	**5,562,309**	**-**	**-**	**5,562,309**
Short term loans	**225,000,000**	**387,600,000**	**-**	**612,600,000**
Employees' defined benefit liabilities	-	**-**	**13,982,453**	**13,982,453**
Total	**352,084,540**	**387,600,000**	**13,982,453**	**753,666,993**

2017	*Less than 3 months SR*	*3 to 12 months SR*	*No fixed maturity SR*	*Total SR*
Trade and other payables	38,009,238	25,339,491	-	63,348,729
Due to related parties	2,865,522	-	-	2,865,522
Short term loans	538,779,050	428,998,030	-	967,777,080
Employees' defined benefit liabilities	-	-	14,564,858	14,564,858
Total	579,653,810	454,337,521	14,564,858	1,048,556,189

24.4 Capital Management

The primary objectives of the Company's capital management are to safeguard its ability to continue as a going concern, maintain healthy capital ratios in order to support its business and to provide an optimal return to its shareholders.

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

24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

24.4 Capital Management (continued)

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Company's law and SAMA. SAMA requires Finance Companies engaged in financing other than real estate, to maintain aggregate financing to capital ratio of three times.

	2018	*2017*
Aggregate financing to capital ratio (Net investment in finance lease plus Murabaha financing receivables divided by total equity)	**1.70 times**	1.98 times

25 FINANCE LEASE RECEIVABLES – SECURITIZATION AND AGENCY AGREEMENTS

In accordance with the terms of certain securitization and agency agreements, the Company has sold finance lease receivables to the banks.

The Company continues to manage these off statement of financial position finance lease receivables as a servicer in accordance with the securitization and agency agreements entered into with the banks (refer note 6). The Company is continuing to manage these sold receivables for an agreed fee which is disclosed as revenue (note 21). These receivables are secured by promissory notes from the customers.

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

	2018 ***SR***	*2017* *SR*
Balance of outstanding finance lease receivables relating to securitization	**184,809,892**	254,476,577

The maturity analysis of above outstanding finance lease receivables is as follows:

31 December 2018	***Up to 1 year*** ***SR***	***More than 1 year*** ***SR***
Securitization agreements	**129,856,357**	**54,953,535**

31 December 2017	*Up to 1 year* *SR*	*More than 1 year* *SR*
Securitization agreements	196,131,457	58,345,120

	2018 ***SR***	*2017* *SR*
Gain recognized during the year against off-statement of financial position finance lease receivables (at the date of transfer / sale of finance lease receivables)	**966,276**	3,029,965

26 PREMISES RENT UNDER OPERATING LEASE ARRANGEMENTS

	2018 ***SR***	*2017* *SR*
Payments under operating leases recognized as an expense during the year (see note 22)	**3,483,615**	3,437,861

Premises rent under operating lease arrangements represent rentals payable by the Company for certain office properties.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, net investment in finance leases, margin deposits, net servicing assets for sold finance lease receivables and other receivables, its financial liabilities consist of trade payables, short term loans, due to related parties and other liabilities.

The fair values of financial instruments are not materially different from their carrying values except for the net investment in finance leases.

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

28 CONTINGENCIES AND COMMITMENTS

The Company has the following contingent liabilities and commitments:

	2018 ***SR***	*2017* *SR*
Letters of guarantee issued in favor of GAZT	**31,532,563**	6,187,731

There were no outstanding letters of credit or commitments at 31 December 2018 and 31 December 2017.

29 RECLASSIFICATION OF PRIOR PERIOD FIGURES

Certain prior period figures have been reclassified to conform to current period presentation, which are not material in nature.

30 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective. The Company is in the process of assessing the impact of these new standards and interpretations on its financial statements.

IFRS 16 – Leases:
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (e.g., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (e.g., the lease liability) and an asset representing the right to use the underlying asset during the lease term (e.g., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

30 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 – Leases: (continued)

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Under IFRS 9, a debt instrument can be measured at AC or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and profit on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

Amendments to IFRS 3: Definition of a business
The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities.

The amendments apply to annual periods beginning on or after 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company is not affected by these amendments.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The amendments to IFRS 10 and IAS 28 have no impact on the Company.

30 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Company does not have any such long-term interests, the amendments will not have an impact on its financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations - The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments have no impact on the Company.

IFRS 11 Joint Arrangements - A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Company.

30 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Annual Improvements 2015-2017 Cycle (issued in December 2017) (continued)

IAS 12 Income Taxes – The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profit than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in statement of profit or loss and other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. These amendments are not applicable to the Company.

IAS 23 Borrowing Costs - The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Company.

31 BOARD OF DIRECTORS' APPROVAL

These financial statements were approved by the Board of Directors on 23 Jumada II 1440H (corresponding to 28 February 2019).