TAAJEER FINANCE LEASE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS' OF TAAJEER FINANCE LEASE COMPANY
(A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of Taajeer Finance Lease 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 comprehensive income, statement of changes in shareholders' 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 Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as modified by SAMA for the accounting of zakat and income tax, and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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 that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS' OF TAAJEER FINANCE LEASE 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 management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

for Ernst & Young

Hussain Saleh Asiri
Certified Public Accountant
License No. 414

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ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

04 March 2019
27 Jumada II 1440 H

Jeddah
18/38/MNA

TAAJEER FINANCE LEASE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Note	***2018 SR***	*2017 SR*
Finance income	4	**34,886,929**	7,351,077
Finance cost	5	**(6,471,349)**	(531,832)
NET FINANCE INCOME		**28,415,580**	6,819,245
Other operating income	6	**18,141,895**	7,408,048
TOTAL INCOME		**46,557,475**	14,227,293
EXPENSES			
Selling and marketing	7	**(11,043,361)**	(10,828,220)
General and administrative	8	**(17,715,469)**	(14,581,558)
TOTAL OPERATING EXPENSES		**(28,758,830)**	(25,409,778)
INCOME / (LOSS) BEFORE CREDIT LOSSES AND OTHERS		**17,798,645**	11,182,485
Credit losses on finance lease	11	**(16,388,729)**	(3,048,549)
Other income		**-**	1,051,112
Fair value gain from financial assets at fair value through profit or loss		**-**	84,138
NET PROFIT / (LOSS) FOR THE YEAR		**1,409,916**	(13,095,784)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**-**	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**1,409,916**	(13,095,784)

The attached notes 1 to 24 form an integral part of these financial statements.

TAAJEER FINANCE LEASE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	*2018*	*2017*
		SR	*SR*
ASSETS			
Cash and bank balances	9	**16,200,846**	7,509,461
Prepayments and other receivables	10	**7,902,674**	2,941,316
Net investment in finance lease	11	**421,877,947**	252,873,078
Equity investment at fair value through other comprehensive income	12	**892,850**	892,850
Property and equipment	13	**2,057,628**	779,133
Intangibles	14	**3,624,418**	4,291,800
Due from a related party	17	**5,818,095**	-
Vehicles available for lease		**1,595,024**	468,512
TOTAL ASSETS		**459,969,482**	269,756,150
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable, accrued and other liabilities	15	**38,784,630**	70,985,976
Due to related parties	17	**127,861,500**	118,815,921
Long term loans		**114,888,258**	-
Employees' terminal benefits		**920,952**	455,681
TOTAL LIABILITIES		**282,455,340**	190,257,578
SHAREHOLDERS' EQUITY			
Share capital	16	**200,000,000**	100,000,000
Statutory reserve	22	**140,991**	-
Accumulated losses		**(22,626,849)**	(20,501,428)
TOTAL SHAREHOLDERS' EQUITY		**177,514,142**	79,498,572
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**459,969,482**	269,756,150

The attached notes 1 to 24 form an integral part of these financial statements.

TAAJEER FINANCE LEASE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2018

2018	*Note*	***SR***
SHARE CAPITAL	16	
Balance as at 1 January 2018		**100,000,000**
Issue of share capital (note 16)		**100,000,000**
Balance as at 31 December 2018		**200,000,000**
STATUTORY RESERVE	22	
Balance as at 1 January 2018		**-**
Transferred from current year net profit		**140,991**
Balance as at 31 December 2018		**140,991**
ACCUMULATED LOSSES		
Balance as at 1 January 2018		**(20,501,428)**
IFRS 9 first time adoption impact (Note 3)		**(3,394,346)**
Balance as at 1 January 2018 (restated)		**(23,895,774)**
Net profit for the year		**1,409,916**
Transferred to statutory reserve		**(140,991)**
Balance as at 31 December 2018		**(22,626,849)**
TOTAL SHAREHOLDERS' EQUITY		**177,514,142**
2017		
SHARE CAPITAL	16	
Balance as at 1 January 2017 and 31 December 2017		100,000,000
STATUTORY RESERVE	22	
Balance as at 1 January 2017 and 31 December 2017		-
ACCUMULATED LOSSES		
Balance as at 1 January 2017		(7,405,644)
Net loss for the year		(13,095,784)
Balance as at 31 December 2017		(20,501,428)
TOTAL SHAREHOLDERS' EQUITY		79,498,572

The attached notes 1 to 24 form an integral part of these financial statements.

TAAJEER FINANCE LEASE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Note	*2018* *SR*	*2017* *SR*
OPERATING ACTIVITIES			
Net profit / (loss) for the year		**1,409,916**	(13,095,784)
Adjustments to reconcile profit/(loss) for the year to net cash flows:			
Financial costs		**5,655,015**	-
Depreciation and amortization	8	**1,094,343**	864,653
Provision for employees' terminal benefits		**499,697**	434,143
Credit losses on finance lease	11	**16,388,729**	3,048,549
		25,047,700	(8,748,439)
Changes in operating assets and liabilities:			
Prepayments and other receivables		**(4,961,358)**	(1,257,839)
Net investment in finance lease		**(188,787,944)**	(257,683,444)
Vehicles available for lease		**(1,126,512)**	(468,512)
Due from related party		**(5,818,095)**	-
Proceeds from long term loans		**128,293,703**	-
Repayment of long term loans		**(13,405,445)**	-
Accounts payable, accrued and other liabilities		**(32,459,201)**	73,431,888
Due to related parties		**9,045,579**	111,169,579
Financial costs paid		**(5,397,160)**	-
Cash used in operations		**(89,568,733)**	(83,556,767)
Employees' terminal benefits paid		**(34,426)**	(28,688)
Net cash used in operating activities		**(89,603,159)**	(83,585,455)
INVESTING ACTIVITIES			
Purchase of property and equipment	13	**(1,636,885)**	(420,979)
Purchase of intangibles	14	**(68,571)**	(69,443)
Purchase of equity investment at fair value through other comprehensive income	12	**-**	(892,850)
Net cash used in investing activities		**(1,705,456)**	(1,383,272)
FINANCING ACTIVITY			
Proceeds from issuance of share capital	16	**100,000,000**	-
NET INCREASE / (DECREASE) IN CASH AND CASH BALANCES		**8,691,385**	(84,968,727)
Cash and cash balances at the beginning of the year		**7,509,461**	92,478,188
CASH AND CASH BALANCES AT THE END OF THE YEAR	9	**16,200,846**	7,509,461

The attached notes 1 to 24 form an integral part of these financial statements.

1 ORGANIZATION AND ACTIVITIES

Taajeer Finance Lease Company (the "Company") is a Saudi Closed Joint Stock Company, registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030289565, issued on 17 Sha'ban 1437H, (corresponding to 24 May 2016).

The Company's head office is in Jeddah. The principal activity of the Company is to engage in the following business activities in the Kingdom of Saudi Arabia;

a) Small and Medium Enterprises (SME) Financing
b) Finance lease

On 29 Safar 1438H (corresponding to 29 November 2016), the Company received a license from Saudi Arabian Monetary Authority (SAMA) to undertake business in the Kingdom of Saudi Arabia under license number 46/AU/201611.

The Company is a subsidiary of Al Ahdaf Al Mumaizah Company Limited (the "Parent Company"). The Ultimate parent of the Company is Taajeer Group ("the Ultimate Parent"). The Company, its parent and the ultimate parent of the Company are wholly owned by Saudi shareholders.

As at 31 December 2018, the Company operates through 7 branches (31 December 2017: 7). The accompanying financial statements include the assets, liabilities and results of these branches.

2 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

These 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, and

ii) In compliance with the requirement 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.

2.2 BASIS OF MEASUREMENT

These financial statements are prepared under the historical cost convention using the accrual basis of accounting, except for the measurement of fair value of 'Investment classified as fair value through other comprehensive income (FVOCI)' and as indicated otherwise.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements have been presented in Saudi Riyal, which is the functional and presentation currency of the Company.

2 BASIS OF PREPARATION (continued)

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 will 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 require a material adjustment to the carrying amount of assets or liabilities affected 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 the 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. In addition, 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.

Credit loss of receivables under finance lease
The measurement of impairment losses 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 ECL calculations are outputs of complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL model that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns Probabilities of Default (PDs) to the individual pool of receivables;
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels, and the effect on PDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model.

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.

2 BASIS OF PREPARATION (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Useful lives of property and equipment and intangibles
The management determines the estimated useful lives of its property and equipment and intangibles for calculating depreciation and amortization. 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 / amortization charge would be adjusted where the management believes the useful lives differ from previous estimates.

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.

2.5 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 finance expense on the lease liability and the depreciation expense on the right-of-use asset.

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. The Company is in the process of finalizing the potential impact of the application of IFRS 16 on its financial statements.

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.

2 BASIS OF PREPARATION (continued)

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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 profit) 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 financial statements of the Company.

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 profit, 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.

2 BASIS OF PREPARATION (continued)

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Amendments to IAS 28: Long-term interests in associates and joint ventures (continued)

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.

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.

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:

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 recognised 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.

Though there is change in accounting policy, however, management assessed and concluded that there is no material impact on the amounts reported at transition to IFRS 15 on 1 January 2018.

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, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company's financial statements.

IFRS 9 Financial Instruments
The Company 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 investments. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Company classifies financial assets under IFRS 9, see 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 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 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)

IFRS 9 Financial Instruments (Continued)

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 loans and other debt financial assets not held at FVIS as well we finance lease receivables, 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.

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. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designated financial assets and financial liabilities as measured at FVIS.
- 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.

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

Financial asset
At the date of transition of 1 January 2018, comparison of original measurement categories in accordance with IAS 39 and the new measurement categories and change in their carrying amount, if any, under IFRS 9 for the Company's financial assets is as follows:

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying value under IAS 39**	**Revised carrying value under IFRS 9**
			SR	***SR***
Cash and bank balances	Held to maturity	Amortized cost	7,509,461	7,509,461
Prepayments and other receivables	Loans and receivables	Amortized cost	2,941,316	2,941,316
Equity investment at fair value through other comprehensive income	Available for sale investments	Fair value through other comprehensive income	892,850	892,850

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

Impact on accumulated losses

	Accumulated losses ***SR***
Balance as at 01 January 2018 as previously stated	**(20,501,428)**
Additional impairment allowance on initial application of IFRS 9	**(3,394,346)**
Balance as at 01 January 2018 - restated	**(23,895,774)**

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.

    o 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.

    o 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 have been consistently applied during the year except for policies included in note 3(a) and are as follows:

Net investment in finance lease
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 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 recognized as unearned finance income. Finance lease income is recognized over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding.

As part of the periodic installments due from customers, the Company charges customers for insurance cover on the vehicles under lease contracts. Insurance charges represent cost of insurance (premium). Consequently, premiums are paid to the Insurers for the insurance cover for the vehicles under lease.

Revenue recognition
Revenue is the gross inflow of economic benefits arising from the ordinary operating activities of the Company when those inflows result in increase in equity, other than increases relating to contributions from equity participants. Revenue is measured at fair value of consideration received or receivable. Revenue is recognized to the extent that it is probable that any future economic benefit associated with the item of revenue will flow to the Company, the revenue can be reliably measured, regardless of when the payment is being made and the costs are identifiable and can be measured reliably.

The Company has applied IFRS 15 Revenue from Contracts with Customers for accounting of revenue. The core principle of the IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 requires that entities apply a five-step model to determine when to recognize revenue and at what amount.

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

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied. i.e. when control of the services pertaining to the respective performance obligation is transferred to the customer.

The specific recognition criteria described below must also be met before revenue is recognised.

- Fixed fees received under financial services agreements are non-refundable. These are initially recorded as unearned income and subsequently earned when the related milestones have been met or the agreement is terminated.
- Success fees are recognized when the related financing has been successfully raised for the client.
- Management and custody fees are recognized on a time apportioned basis.
- Finance income on Murabaha placements is recognised on a time apportioned basis, in accordance with the contracted terms.
- Dividend income is recognised when the right to receive payment is established.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other operating income
Other operating income comprises lease initiation, customer credit assessment, vehicle registration and other fee income. It is recognized immediately upon execution of the agreements with the customers.

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

General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company. Allocations between general and administrative expenses and direct costs, when required, are made on a consistent basis.

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash in bank and short-term deposits with original maturity of three months or less.

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 payments are charged to the statement of comprehensive income on a straight-line basis.

Vehicles available for lease
Vehicles available for lease represents vehicles repossessed on termination of lease contracts and are stated at the net realizable value. Net realizable value represents the estimated selling price of the vehicles less the costs necessary to make the sale. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognized in the statement of comprehensive income.

Property and equipment
Depreciable property and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated rates of depreciation of the principal classes of assets are as follows:

Leasehold improvements	25%
Furniture and fixtures	10%
Office equipment	14.3%
Computer equipment	33.33%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangibles (continued)
Intangible asset is being amortized over a useful life using the straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

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

Impairment of non-financial assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognized in the statement of comprehensive income if those expense categories are consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

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

If the effect of the time value of money is material, provisions are discounted using a discount rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Employees' terminal benefits

Short-term employee benefits
Short-term employee benefits are expensed as the related services are provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' terminal benefits (continued)

Post-employment benefits

The Company's obligation under employee end of service benefit is accounted for as an unfunded defined benefit plan and is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Re-measurement of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Company determines the net profit expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net profit expense and other expenses related to defined benefit plans are recognised in employee costs in the statement of profit or loss.

Zakat

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia and on accruals basis. Differences, if any, resulting from the final assessments are adjusted in the year of their finalization.

According to the new Zakat Regulations, Holding Companies and their fully owned subsidiaries (with direct / indirect legal 100% ownership) are required to submit a consolidated declaration with GAZT through ERAD system and settle Zakat obligations on consolidated basis.

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 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification of financial assets (continued)

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 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;
- how the performance of the portfolio is evaluated and reported to the Company’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company’s stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are 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.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 an entity has opted to measure a liability at fair value through income statement as per the requirements of IFRS 9.

Derecognition
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.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and- repurchase transactions, as the Company retains all or substantially all of the risks and rewards of ownership of such assets.

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 income.

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 with modified terms is recognised in statement of income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment
The Company recognizes loss allowances for Expected Credit Loss (“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.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- 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 Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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

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

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The Company categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

- Stage 1 – Financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months Probability of Default (PD).
- Stage 2 – Financial assets that has significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on lifetime ECL. The impairment allowance is recorded based on life time PD.
- Stage 3 – For Financial assets that are impaired, the Company is recognize the impairment allowance based on life time PD.

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., unemployment, GDP growth, inflation and profit rates) 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: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less cash flows that the Company expects to receive any.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 loan 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.

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;

Write-off
Loans 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.

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

For the purpose of fair value disclosures, the Company determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Loans and borrowings
After initial recognition, finance-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.

4 FINANCE INCOME

It represents income earned on investment in finance lease at the profit rate implicit in the lease determined at the inception of the contract.

5 FINANCE COST

	2018	*2017*
	SR	*SR*
Finance cost	**5,655,015**	-
Others	**816,334**	531,832
	6,471,349	531,832

6 OTHER OPERATING INCOME

	2018	*2017*
	SR	*SR*
Rebate on purchase of vehicles	**4,882,458**	3,598,554
Plate fee, net	**1,581,623**	1,834,046
Contract fee	**1,975,164**	1,353,798
Insurance revenue, net	**7,977,326**	621,650
Others	**1,725,324**	-
	18,141,895	7,408,048

7 SELLING AND MARKETING EXPENSES

	2018	*2017*
	SR	*SR*
Salaries and related cost	**5,270,268**	5,680,608
Salesmen's commission	**4,178,849**	3,671,002
Rent	**1,140,558**	1,106,881
Others	**453,686**	369,729
	11,043,361	10,828,220

8 GENERAL AND ADMINISTRATIVE EXPENSES

	2018	*2017*
	SR	*SR*
Salaries and related costs	**11,055,851**	10,167,274
Provision on closed contracts (see note below)	**1,320,219**	-
Professional charges	**1,207,040**	481,501
Depreciation and amortization (note 13 and 14)	**1,094,343**	864,653
Rent	**537,277**	380,501
Communication	**444,894**	1,269,079
Entertainment	**44,716**	467,064
Others	**2,011,129**	951,486
	17,715,469	14,581,558

This amount primarily represents the provision against the carrying amount and loss on disposal of repossessed vehicles.

9 CASH AND BANK BALANCES

	2018	*2017*
	SR	*SR*
Cash in hand	**-**	5,000
Bank balances	**16,200,846**	7,504,461
	16,200,846	7,509,461

10 PREPAYMENTS AND OTHER RECEIVABLES

	2018	*2017*
	SR	*SR*
Prepaid expenses	**5,822,423**	1,767,005
Advances to suppliers	**2,001,444**	1,124,429
Advance to employees	**33,582**	14,512
Others	**45,225**	35,370
	7,902,674	2,941,316

11 NET INVESTMENT IN FINANCE LEASE

	2018 SR	*2017 SR*
Gross investment in finance lease	**665,206,078**	395,938,085
Less: unearned finance income	**(220,496,507)**	(140,016,458)
	444,709,571	255,921,627
Less: credit loss on finance lease (see note 11.1)	**(22,831,624)**	(3,048,549)
Net investment in finance lease	**421,877,947**	252,873,078

	31 December 2018			
	Gross investment SR	***Unearned finance income SR***	***Impairment allowance SR***	***Net investment SR***
Current portion	**161,932,273**	**(69,956,341)**	**(22,831,624)**	**69,144,308**
Non-current portion	**503,273,804**	**(150,540,165)**	**-**	**352,733,639**
Total	**665,206,077**	**(220,496,506)**	**(22,831,624)**	**421,877,947**

	31 December 2017			
	Gross investment SR	*Unearned finance income SR*	*Impairment allowance SR*	*Net investment SR*
Current portion	82,509,747	(38,815,616)	(3,048,549)	40,645,582
Non-current portion	313,428,338	(101,200,842)	-	212,227,496
Total	395,938,085	(140,016,458)	(3,048,549)	252,873,078

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

	2018 SR	*2017 SR*
At the beginning of the year s(previously stated)	**3,048,549**	-
IFRS 9 first time adoption impact (note 3(a))	**3,394,346**	-
At the beginning of the year (restated)	**6,442,895**	-
Provided during the year	**16,388,729**	3,048,549
At the end of the year	**22,831,624**	3,048,549

11 NET INVESTMENT IN FINANCE LEASE (continued)

The ageing of gross finance lease receivables, which are past due and considered impaired by the management, is as follows:

	2018	*2017*
	SR	*SR*
1 – 3 months	**4,529,519**	1,765,402
4 – 6 months	**2,989,746**	689,135
7 – 12 months	**2,438,559**	171,630
	639,265	-
	10,597,089	2,626,167

The aging of not yet due balances pertaining to customers with overdue instalments is as follows:

	2018	*2017*
	SR	*SR*
1 – 3 months	**14,009,548**	3,942,061
4 – 6 months	**13,879,301**	3,956,000
7 – 12 months	**26,017,194**	7,873,614
Over 12 months	**172,535,440**	64,395,370
	226,441,483	80,167,045

The principal portion of above not yet due balances at 31 December 2018 amounts to SR 149,695,359 (2017: SR 51,159,403).

The Company finances the sale of vehicles to its customers through finance leases and instalment sales. Under finance lease, the legal ownership of the vehicle is retained by the Company while under instalment sales legal ownership is transferred to the customer. Finance leases represent 2% of the total gross investments.

12 EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

It represents the capital contribution in the contacts registration company established under article 12 of the implementation regulations of the finance companies control law. It requires all finance companies operating in the Kingdom of Saudi Arabia to establish a joint stock company, after the approval of SAMA, for the purpose of establishing a database of finance lease contracts and enabling secure access to the data in the contracts register. The Company can only sell this investment with prior approval of SAMA.

The Company subscribed 2.38% of paid up capital amounting to SR 892,850 on 14 December 2017 (corresponding to 26 Rabi I 1439H). As the investee company has not yet started its commercial operations, management believe that the carrying amount approximate the fair value.

Investment at fair value is classified under level 3 of the fair value hierarchy.

13 PROPERTY AND EQUIPMENT

	Leasehold improvements (note below) SR	***Furniture fixtures SR***	***Computer equipment SR***	***Office equipment SR***	***Total 31 December 2018 SR***	*Total 31 December 2017 SR*
Cost:						
At the beginning of the year	209,057	377,381	239,480	105,980	**931,898**	510,919
Additions	675,484	371,310	512,419	77,672	**1,636,885**	420,979
At the end of the year / period	884,541	748,691	751,899	183,652	**2,568,783**	931,898
Depreciation:						
At the beginning of the year	49,019	36,619	62,199	4,928	**152,765**	15,819
Charge for the year	106,563	57,741	174,726	19,360	**358,390**	136,946
At the end of the year	155,582	94,360	236,925	24,288	**511,155**	152,765
Net book amounts:						
At 31 December 2018	**728,959**	**654,331**	**514,974**	**159,364**	**2,057,628**	
At 31 December 2017	160,038	340,762	177,281	101,052		779,133

Leasehold improvements are depreciated over a period of their useful lives as management believe that the lease term will be extended for further periods.

14 INTANGIBLES

	2018	*2017*
	SR	*SR*
Cost:		
At the beginning of the year	**5,140,240**	5,070,797
Additions	**68,571**	69,443
At the end of the year	**5,208,811**	5,140,240
Amortisation:		
At the beginning of the year	**848,440**	120,733
Charge for the year	**735,953**	727,707
At the end of the year	**1,584,393**	848,440
Net book value	**3,624,418**	4,291,800

Intangible represents cost incurred for purchase and installation of a computer software and is amortized over its useful life of 7 years at straight line method.

15 ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	2018	*2017*
	SR	*SR*
Accounts payable	**26,923,536**	67,757,877
Accrued liabilities	**4,506,303**	3,228,099
Advance from customers	**3,328,048**	**-**
Other payables	**4,026,743**	**-**
	38,784,630	70,985,976

16 SHARE CAPITAL

On 17 Rajab 1439H (corresponding to 3 April 2018), the shareholders of the Company resolved to increase the share capital by SR 100,000,000 (1,000,000 shares at SR 10 of each). The shares have increased in proportion to the shareholding pattern as of the capital increase date. The legal formalities in this respect were completed on 20 Sha'ban 1439H (corresponding to 6 May 2018). Accordingly, the revised share capital of the Company as at 31 December 2018 is owned as follows:

	No. of shares of SR 10 each	***2018 SR***
Al Ahdaf Al Mumaizah Company Limited	**19,200,000**	**192,000,000**
Taajeer Gulf Company Limited	**200,000**	**2,000,000**
Taajeer Global Company Limited	**200,000**	**2,000,000**
Taajeer International Company Limited	**200,000**	**2,000,000**
Taajeer National Company for Auto Maintenance and Integrated Service Limited	**200,000**	**2,000,000**
	20,000,000	**200,000,000**

16 SHARE CAPITAL (continued)

As at 31 December 2017, the share capital was owned as follows:

	No. of shares of SR 10 each	*2017 SR*
Al Ahdaf Al Mumaizah Company Limited	9,600,000	96,000,000
Taajeer Gulf Company Limited	100,000	1,000,000
Taajeer Global Company Limited	100,000	1,000,000
Taajeer International Company Limited	100,000	1,000,000
Taajeer National Company for Auto Maintenance and Integrated Service Limited	100,000	1,000,000
	10,000,000	100,000,000

17 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

i) Following are the details of related party transactions entered during the year:

Related Party	**Nature of transaction**	***2018 SR***	*2017 SR*
Ultimate Parent	Payments for purchase of the vehicles on behalf of the Company	**103,552,868**	118,420,278
	Collection from the Company's customers	**72,565,173**	14,108,798
	IT expense allocated	**-**	862,677
Others	Short term deposits	**-**	140,000,000
	Finance income on short term deposits	**-**	1,051,112
	Purchase of vehicles	**91,450,404**	52,280,292
	Vehicle insurance services	**9,041,365**	3,743,372
	Investment in a mutual fund	**-**	25,000,000
	Fair value gain on redemption of investment in a mutual fund	**1,149,532**	84,138
	Vehicle maintenance	**647,234**	151,173
Shareholders	Proceeds from issue of share capital	**100,000,000**	-

17 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

ii) Due to related parties comprise the following:

	2018	*2017*
	SR	*SR*
Taajeer International Company Limited	**127,208,266**	36,754,248
Taajeer National Company for Maintenance and Integrated Services Limited	**647,234**	151,172
Awaed Arabia	**6,000**	-
Taajeer Group	-	81,269,606
Salama Cooperative Insurance Company	-	640,895
	127,861,500	118,815,921

iii) Due from Related Parties Comprises the following:

	2018	*2017*
	SR	*SR*
Taajeer Group	**4,778,575**	-
Salama insurance	**1,039,520**	-
	5,818,095	**-**

iv) The total amount of compensation paid to key management personnel during the year is as follows:

	2018	*2017*
	SR	*SR*
Key management remuneration	**3,268,800**	3,061,650
Short term employee benefits	**313,472**	649,800
Employees' terminal benefits	**-**	165,118
	3,582,272	3,876,568

The Company's Board of Directors includes the Board and other Board related committees (Credit and Risk Committee, Executive Committee, Remuneration Committee and Audit Committee).

18 ZAKAT

The Company is subject to the Regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia. According to the new Zakat Regulations, Holding Companies and their fully owned subsidiaries (with direct / indirect legal 100% ownership) are required to submit a consolidated declaration with GAZT through ERAD system and settle Zakat obligations on consolidated basis. Accordingly, no provision for zakat has been made in these financial statements of the Company and any Zakat liability / settlement of the Company is being considered in the books of Taajeer Group.

Status of assessments

The assessments for the period from 24 May 2016 to 31 December 2016 and for the year ended 31 December 2017 have not yet been raised by General Authority for Zakat and Tax (the "GAZT").

19 LEASE COMMITMENTS

Operating lease payments represent rentals payable by the Company for certain office properties. Leases are negotiated for an average renewable term of 1 year and rentals are fixed for the same year. Future minimum rentals payable under non-cancellable operating leases as at 31 December 2018 amount to SR 420,000 (31 December 2017: SR 555,416).

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to profit rate risk, currency risk, liquidity risk and credit risk. The Company's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

20.1 Credit risk

a) *Credit quality analysis*
The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2018. Investment in finance and the corresponding ECL allowance as at 31 December 2018 and 31 December 2017 classified into is as follows:

	31 December 2018			
	Stage 1 *SR*	**Stage 2** *SR*	**Stage 3** *SR*	**Total** *SR*
Description				
Net carrying amount before ECL	**407,753,396**	**23,833,592**	**13,122,583**	**444,709,571**
ECL	**14,377,934**	**5,919,584**	**2,534,106**	**22,831,624**

	31 December 2017			
	Stage 1 *SR*	Stage 2 *SR*	Stage 3 *SR*	Total *SR*
Description				
Net carrying amount before ECL	234,283,830	9,983,472	15,048,671	259,315,973
ECL	1,537,719	200,263	4,704,913	6,442,895

b) Amounts arising from ECL – significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure based on approved stages of criteria.

Credit risk grades
The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1 Credit risk (continued)

Credit risk grades (continued)

a) Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

The Company employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include GDP growth, benchmark profit rates, unemployment etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

b) Determining whether credit risk has increased significantly
The criteria for determining whether credit risk has increased significantly include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, which is determined under basis of Company’s staging criteria.

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

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

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

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

c) Modified financial assets
The contractual terms of a financing and advances may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing and advances whose terms have been modified may be derecognised and the renegotiated financing and advances recognised as a new financing and advances at fair value in accordance with the accounting policy.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1 Credit risk (continued)

Credit risk grades (continued)

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

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

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of leasing and instalments covenants. Both consumer and corporate portfolios are subject to the forbearance policy.

d) Definition of 'Default'
A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The obligor is past due for 90 days or more on any material credit obligations to the Company including principal instalments and profit payments.
- The Company considers that the obligor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any).

e) Incorporation of forward looking information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom of Saudi Arabia and selected private sector and academic forecasters.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

f) Measurement of ECL
The key inputs into the measurement of ECL are the term structure of the following parameters. These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

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

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.1 Credit risk (continued)

Credit risk grades (continued)

f) Measurement of ECL (continued)
LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the recoveries and costs incurred in the process to arrive at the estimates.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its net carrying amount before ECL.

The Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of finance lease receivables.

20.2 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: profit rate risk, currency risk and other price risk, such as equity price risk and commodity risk.

Profit rate risk
Profit rate risk arises from the possibility that changes in profit rates will affect the value of the financial instruments. As of the statement of financial position date, the Company does not have floating profit instruments. Accordingly, the Company is not significantly exposed to profit rate risk.

Profit rate sensitivity of assets, liabilities and off statement of financial position items
The Company manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The table below summarizes the Company's exposure to profit rate risks. Included are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	Profit bearing			
31 December 2018	***Within 1 year SR***	***1 to 5 years SR***	***Non-profit bearing SR***	***Total SR***
Assets				
Cash and cash equivalents	**-**	**-**	**16,200,846**	**16,200,846**
Prepayments and other receivables	**-**	**-**	**7,902,674**	**7,902,674**
Net investment in finance lease	**91,975,932**	**329,902,015**	**-**	**421,877,947**
Equity investment at fair value through other comprehensive income	**-**	**-**	**892,850**	**892,850**
Property and equipment	**-**	**-**	**2,057,628**	**2,057,628**
Intangibles	**-**	**-**	**3,624,418**	**3,624,418**
Due from related party	**-**	**-**	**5,818,095**	**5,818,095**
Vehicles available for lease	**-**	**-**	**1,595,024**	**1,595,024**
Total assets	**91,975,932**	**329,902,015**	**38,091,535**	**459,969,482**

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.2 Market risk (continued)

31 December 2018	*Profit bearing* *Within 1 year* *SR*	*1 to 5 years* *SR*	*Non-profit bearing* *SR*	*Total* *SR*
Liabilities				
Accounts payable, accrued and other liabilities	**-**	**-**	**38,784,630**	**38,784,630**
Due to related parties	**-**	**-**	**127,861,500**	**127,861,500**
Long term loans	**33,164,532**	**81,723,726**	**-**	**114,888,258**
Employees' end of service benefits	**-**	**-**	**920,952**	**920,952**
Total liabilities	**33,164,532**	**81,723,726**	**167,567,082**	**282,455,340**
Gap	**58,811,400**	**248,178,289**	**(129,475,547)**	**177,514,142**

As at 31 December 2017, except for net investment in finance lease of SR 252,873,078 all of the assets and liabilities were non-profit bearing.

Currency risk
Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Company does not hedge its currency exposure by means of hedging instruments. All of the purchases and sales of the Company are made in Saudi Riyals. As the Company did not undertake significant transactions in currencies other than Saudi Riyal, during the year, the Company was not exposed to any significant currency risk.

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

20.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements to meet its financial liabilities. This risk is managed through availability of extended credit period from related parties on purchase of vehicles. The average credit period on purchases of vehicles from third parties ranges from 1 to 3 months. No profit is charged on the accounts payable and balance due to related parties. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

Significant portion the Company's liabilities are amounts due to related parties and expected to be settled within 12 months from reporting date. However, if required, these amounts could be deferred and additional resources could be obtained from the Ultimate Parent Company to support operations of the Company. For liabilities other than due to related parties, management believe that adequate resources will be available to pay off as they fall due.

The Company's financial liabilities primarily consist of accounts payable due to related parties and accrued and other liabilities. A significant portion of these financial liabilities is expected to be settled within 12 months from reporting date. The Company expects to have adequate liquid funds to pay off the liabilities as they fall due.

i) Analysis of financial liabilities by remaining contractual maturities

As at the statement of financial position date, all of the financial liabilities of the Company are having maturity dates of one year except for employees' terminal benefits which have no fixed maturity.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3 Liquidity risk (continued)

ii) **Maturity analysis of assets and liabilities**

The table below shows an analysis of assets and liabilities, analyzed according to when they are expected to be recovered or settled.

	Fixed maturity			
31 December 2018	***Within 1 year SR***	***1 to 5 years SR***	***No fixed maturity SR***	***Total SR***
Assets				
Cash and cash equivalents	**16,200,846**	**-**	**-**	**16,200,846**
Prepayments and other receivables	**7,478,964**	**423,710**	**-**	**7,902,674**
Due from related party	**5,818,095**	**-**	**-**	**5,818,095**
Net investment in finance lease	**91,975,932**	**329,902,015**	**-**	**421,877,947**
Vehicles available for lease	**1,595,024**	**-**	**-**	**1,595,024**
Equity investment at fair value through other comprehensive income	**-**	**-**	**892,850**	**892,850**
Property and equipment	**-**	**-**	**2,057,628**	**2,057,628**
Intangibles	**-**	**-**	**3,624,418**	**3,624,418**
Total assets	**123,068,861**	**330,325,725**	**6,574,896**	**459,969,482**
Liabilities				
Accounts payable, accrued and other liabilities	**38,784,630**	**-**	**-**	**38,784,630**
Due to related parties	**127,861,500**	**-**	**-**	**127,861,500**
Long term loans (see note below)	**33,164,532**	**81,723,726**	**-**	**114,888,258**
Employees' terminal benefits	**-**	**-**	**920,952**	**920,952**
Total liabilities	**199,810,662**	**81,723,726**	**920,952**	**282,455,340**

Long term loans represents loans from a bank to meet the Company's working capital requirements. These loans are secured by the guarantees from shareholder and carry commercial profit rate.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.3 Liquidity risk (continued)

ii) **Maturity analysis of assets and liabilities (continued)**

	Fixed maturity			
31 December 2017	*Within 1 year SR*	*1 to 5 years SR*	*No fixed maturity SR*	*Total SR*
Assets				
Cash and cash equivalents	-	-	7,509,461	7,509,461
Prepayments and other receivables	2,531,853	409,463	-	2,941,316
Net investment in finance lease	40,645,582	212,227,496	-	252,873,078
Vehicles available for lease	468,512	-	-	468,512
Equity investment at fair value through other comprehensive income	-	-	892,850	892,850
Property and equipment	-	-	779,133	779,133
Intangibles		-	4,291,800	4,291,800
Total assets	43,645,947	212,636,959	13,473,244	269,756,150
Liabilities				
Accounts payable, accrued and other liabilities	70,985,976	-	-	70,985,976
Due to related parties	118,194,164	-	621,757	118,815,921
Employees' terminal benefits	-	-	455,681	455,681
Total liabilities	189,180,140	-	1,077,438	190,257,578

Credit risk and concentration of credit risk

Credit risk arises from the possibility of asset impairment occurring because counter parties cannot meet their obligations in transactions involving financial instruments. The Company is exposed to credit risk on cash and bank balances, net investment in finance lease 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. However, the Company mitigates its credit risk through evaluation of credit worthiness and by obtaining promissory notes. The title of the vehicles sold under finance lease agreements is held in the name of the Company as collateral to be repossessed, in case of default by the customer.

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.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

20.4 Capital Management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of 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 objectives, policies or processes for managing capital during the year ended 31 December 2018.

The Company monitors capital on the basis of the regulatory requirements of Regulations for Companies and SAMA minimum capital requirements for financing companies.

	2018	*2017*
	SR	*SR*
Capital adequacy ratio (Net investment in finance lease divided by shareholders' equity)	**2.38 times**	3.18 times

In accordance with the Article 54 (2) of the Implementing Regulations of the Finance Companies Control Law, SAMA through a letter dated 03 February 2019 raised the maximum limit of the aggregate amount of financing allowed to 4 times of the shareholders' equity of the Company.

21 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, net investment in finance lease, investment classified as FVOCI, net deferred consideration receivable, employees' receivable, due from related parties and other receivables. Its financial liabilities consist of due to related parties, accounts payable and payables under purchase and agency agreements.

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.

22 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.

23 RECLASSIFICATION OF PRIOR PERIOD FIGURES

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

24 BOARD OF DIRECTORS' APPROVAL

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