MAALEM FINANCING COMPANY
(Formerly known as Maalem Al Taqseet Company)
(A Saudi Closed Joint Stock Company)

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

MAALEM FINANCING COMPANY
(Formerly known as Maalem Al Taqseet Company)
(A Saudi Closed Joint Stock Company)
Financial statements
For the year ended December 31, 2018

Independent auditor's report to the shareholders of Maalem Financing Company (A Saudi Closed Joint Stock Company)

Report on the audit of the financial statements

Our opinion

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

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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

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

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

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

Independent auditor's report to the shareholders of Maalem Financing Company
(A Saudi Closed Joint Stock Company) *(continued)*

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

PricewaterhouseCoopers

Khalid A. Mahdhar
License Number 368

March 3, 2019

MAALEM FINANCING COMPANY
(Formerly known as Maalem Al Taqseet Company)
(A Saudi Closed Joint Stock Company)
Statement of comprehensive income
For the year ended December 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2018	2017
Murabaha income		**30,597,871**	30,086,688
Financial charges		**(8,013,791)**	(4,463,887)
		22,584,080	25,622,801
Operating expenses			
Other general and administrative	5	**(11,942,988)**	(9,140,741)
Provision for doubtful debts	7	**(7,125,274)**	(6,052,203)
Salaries and other benefits		**(10,494,075)**	(7,426,965)
(Loss) / income from operations		**(6,978,257)**	3,002,892
Other income		**1,311,024**	177,184
Net (loss) / income		**(5,667,233)**	3,180,076
Other comprehensive (loss) / income		**-**	-
Total comprehensive (loss) / income		**(5,667,233)**	3,180,076
(Loss) / earnings per share		**(0.38)**	0.26
Weighted average number of shares	18	**15,000,000**	12,315,068

The notes on pages 7 to 21 form an integral part of these financial statements.

MAALEM FINANCING COMPANY
(Formerly known as Maalem Al Taqseet Company)
(A Saudi Closed Joint Stock Company)
Statement of financial position
As at December 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	December 31, 2018	December 31, 2017
Assets			
Cash and cash equivalents	6	**77,134,350**	27,870,949
Murabaha receivables, net	7	**256,093,617**	190,837,990
Due from related parties	8	**363,987**	2,985,707
Prepayments and other receivables	9	**12,648,500**	9,597,289
Repossessed assets held for sale	10	**2,545,800**	2,000,000
Property and equipment, net	11	**5,996,754**	5,064,278
Total assets		**354,783,008**	238,356,213
Liabilities			
Sukuk	12	**83,333,333**	-
Loan from a related party	13	**79,327,397**	79,327,397
Long term loan	14	**30,037,500**	-
Accrued and other liabilities	15	**15,132,553**	4,467,015
Provision for zakat	16	**4,530,918**	9,253,214
Employees' termination benefits	17	**559,600**	658,700
Total liabilities		**212,921,301**	93,706,326
Shareholders' equity			
Share capital	18	**150,000,000**	150,000,000
Statutory reserve	19	**2,080,046**	2,080,046
Accumulated deficit		**(10,218,339)**	(7,430,159)
Total shareholders' equity		**141,861,707**	144,649,887
Total liabilities and shareholders' equity		**354,783,008**	238,356,213
Commitments	20		

The notes on pages 7 to 21 form an integral part of these financial statements.

MAALEM FINANCING COMPANY
(Formerly known as Maalem Al Taqseet Company)
(A Saudi Closed Joint Stock Company)
Statement of changes in shareholders' equity
For the year ended December 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Statutory reserve	Accumulated deficit	Total
January 1, 2017		100,000,000	1,762,038	(7,754,741)	94,007,297
Increase in capital	18	50,000,000	-	-	50,000,000
Comprehensive income:					
Net income for the year		-	-	3,180,076	3,180,076
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	-	3,180,076	3,180,076
Transfer to statutory reserve		-	318,008	(318,008)	-
Zakat charge during the year	16	-	-	(2,537,486)	(2,537,486)
December 31, 2017		150,000,000	2,080,046	(7,430,159)	144,649,887
January 1, 2018		**150,000,000**	**2,080,046**	**(7,430,159)**	**144,649,887**
Changes on initial application of IFRS 9	3,7	**-**	**-**	**(981,032)**	**(981,032)**
Comprehensive income:					
Net loss for the year		**-**	**-**	**(5,667,233)**	**(5,667,233)**
Other comprehensive income		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	**-**	**(5,667,233)**	**(5,667,233)**
Zakat reversal during the year, net	16	**-**	**-**	**3,860,085**	**3,860,085**
December 31, 2018		**150,000,000**	**2,080,046**	**(10,218,339)**	**141,861,707**

The notes on pages 7 to 21 form an integral part of these financial statements.

MAALEM FINANCING COMPANY
(Formerly known as Maalem Al Taqseet Company)
(A Saudi Closed Joint Stock Company)
Statement of cash flows
For the year ended December 31, 2018
(All amounts in Saudi Riyals unless otherwise stated)

	Note	2018	2017
Cash flows from operating activities			
Net (loss) / income		**(5,667,233)**	3,180,076
Adjustments for non-cash items:			
Depreciation	11	**1,110,949**	617,368
Gain on sale of property and equipment		**(93,435)**	-
Provision for doubtful debts	7	**7,125,274**	6,052,203
Provision for employees' termination benefits	17	**601,919**	332,488
Changes in working capital			
Murabaha receivables		**(73,361,933)**	(113,466,175)
Due from related parties		**2,621,720**	3,852,457
Prepayments and other receivables		**(3,051,211)**	(7,968,682)
Repossessed assets held for sale		**(545,800)**	-
Accrued and other liabilities		**10,665,538**	3,011,487
Employees' termination benefits paid	17	**(701,019)**	(283,488)
Zakat paid	16	**(862,211)**	(1,089,068)
Net cash utilized in operating activities		**(62,157,442)**	(105,761,334)
Cash flows from investing activities			
Purchase of property and equipment	11	**(2,054,788)**	(4,487,855)
Proceeds from sale of property and equipment		**104,798**	
Net cash utilized in investing activities		**(1,949,990)**	(4,487,855)
Cash flows from financing activities			
Increase in capital	18	-	50,000,000
Loan from a related party	13	-	79,327,397
Long term loan proceeds	14	**30,037,500**	-
Sukuk proceeds		**100,000,000**	-
Sukuk repayment		**(16,666,667)**	-
Net cash generated from financing activities		**113,370,833**	129,327,397
Net change in cash and cash equivalents		**49,263,401**	19,078,208
Cash and cash equivalents at the beginning of the year	6	**27,870,949**	8,792,741
Cash and cash equivalents at the end of the year	6	**77,134,350**	27,870,949
Supplemental non-cash information:			
Real estate transferred from customers as settlement for an outstanding balance	10	**545,800**	2,000,000

The notes on pages 7 to 21 form an integral part of these financial statements.

1. General information

Maalem Financing Company (formerly known as Maalem Al Taqseet Company) (the "Company") is a closed joint stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010262141 issued in Riyadh on Safar 9, 1430H (corresponding to February 4, 2009).

The Company is principally engaged in retailing and wholesaling home furniture, electrical and home devices, building materials in cash and installment, purchase of real estates and sell them in cash and installment, purchase of lands to build up buildings and sell them back in cash and installments or to rent them, development and maintenance for real estates, general constructions for buildings, electrical and electronic works, and import and export and marketing expenses for third parties.

As per the Saudi Arabian Monetary Authority ("SAMA") license number 45/HA/201605 dated 2 Sha'ban 1437H (corresponding to May 9, 2016), the Company is authorized to provide lease finance, consumer finance and small and medium enterprise finance in the Kingdom of Saudi Arabia.

The Company's registered office is located in Riyadh at the following address:

Maalem Financing Company
P.O. Box 271188
Riyadh 11352
Kingdom of Saudi Arabia

The Board of Directors approved issuing of these financial statements on February 28, 2019.

2. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with 'International Financial Reporting Standards ("IFRS") as modified by SAMA for the accounting of zakat and income taxes', 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 taxes. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income taxes are to be accrued on a quarterly basis through shareholders' equity under retained earnings.

The financial statements have been prepared on a historical cost basis, except as disclosed in these notes to the financial statements.

2.2 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('Saudi Riyals'). The financial statements are presented in Saudi Riyals, which is the Company's functional and presentation currency.

2.3 New standards and interpretations not yet adopted

IFRS16 Leases - The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. It will result in almost all leases being recognized on the financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors did not significantly change. The Company does not expect the new guidance to have a significant impact on the classification and measurement or any other impact for impairment or hedging of its financial assets.

2.4 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts (if any).

2.5 Murabaha receivables

Murabaha originated by the Company, are initially recognized at fair value including transaction costs when cash is advanced to customers. Subsequently, these financial assets are measured at amortized cost. For presentation purposes, the unearned finance income and provision for impairment are deducted from gross receivables.

2.6 Repossessed assets held for sale

The Company, in the ordinary course of business, acquires real estate or other assets against settlement of finances due. Such assets are considered as assets held for sale and are initially recorded at the lower of receivables value or the current fair value of the related assets, less any costs to sell, at the time of possession. No depreciation is charged on such assets.

Subsequent to initial recognition, any subsequent write down to fair value, less cost to sell, are charged to the statement of comprehensive income. Any subsequent gain in the fair value less cost to sell of these assets to the extent this does not exceed the cumulative write down is recognized as income together with any gain/loss on disposal.

2.7 Property and equipment

Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to statement of comprehensive income during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful life. The estimated useful life of the assets are as follows:

	Number of years
Vehicles	5 years
Furniture and fixtures	5 years
Computer equipment	5 years
Leasehold improvements	4 - 5 years or over the lease term whichever is shorter

2.8 Provisions, accrued and other liabilities

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

2.9 Employees' termination benefits

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made at the present value of expected future payments in respect of services provided by the employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The benefit payments obligation is discharged as and when it falls due. Remeasurements (actuarial gains / losses) as a result of experience adjustments and changes in actuarial assumptions are recognised in statement of comprehensive income.

2.10 Short-term employee benefits

Short-term employee benefits, include leave pay and airfare, are current liabilities included in accrued expenses, measured at the undiscounted amount that the entity expects to pay as a result of the unused entitlement.

2.11 Zakat

In accordance with the regulations of the General Authority for Zakat and Tax ("GAZT"), the Company is subject to zakat attributable to the Saudi shareholders. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis and charged directly into retained earnings in the statement of changes in shareholders' equity. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

2.12 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

2.13 Revenue recognition

Income from murabaha receivables is recognized in the statement of comprehensive income using the effective yield method, on the outstanding balance over the term of the contract.

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

Other income are recognized on accrual basis as the services are rendered.

2.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of financial charges and other costs that the Company incurs in connection with the borrowing of funds.

2.15 General and administrative expenses

General and administrative expenses are those arising from Company's efforts underlying the administrative activities.

3 IFRS 9 Financial Instruments - Impact of adoption

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" on the Company's financial statements and also discloses the new accounting policies that have been applied from January 1, 2018, where they are different to those applied in prior periods.

IFRS 9 replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement" that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting, if any.

The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period, if any. The comparative period notes disclosures repeat those disclosures made in the prior year.

3.1 Classification and measurement

On January 1, 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories.

IFRS 9 contains three principal classification categories for financial assets. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables, and available for sale. The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income (FVOCI)
- those to be measured subsequently at fair value through profit or loss (FVTPL) and
- those to be measured at amortized cost.

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

Subsequent measurement of debt instrument depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. There are three measurement categories into which the Company classifies its debt instruments:

i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and profit are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of the hedging relationship is recognized in statement of comprehensive income when the asset is derecognized or impaired. Profit from these financial assets is calculated the effective yield method.
ii) Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, profit on financial instrument (revenue) and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of comprehensive income and recognised in other gains / (losses). Profit from these financial assets is included in finance income using the effective yield method.
iii) Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in statement of comprehensive income and presented net in the statement of comprehensive income statement within other gains / (losses) in the period in which it arises. Profit from these financial assets is included in the finance income.

Currently, the Company does not hold any equity instruments; therefore, the related accounting policies have not been presented.

There were no changes to the classification of the financial assets and liabilities of the Company, all financial assets and liabilities of the Company were classified and measured at amortized cost. The effect on the Company's murabaha receivables on the accumulated losses is disclosed in Note 7.

3.2 Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost. The Company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

The Company uses three categories for murabaha receivables which reflect their credit risk and how the loss provision is determined for each of those categories.

Category	Company definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 90 days past due (see above in more detail)	Lifetime expected losses
Non-performing	Interest and/or principal repayments above 90 days past due	Lifetime expected losses

(All amounts in Saudi Riyals unless otherwise stated)

3.3 Financial liabilities - subsequent classification and measurement

All financial liabilities are subsequently measured at amortised cost using the effective yield method or FVTPL. The company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The effective yield rate is the rate that discounts the estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

3.4 Derecognition of financial instruments

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of comprehensive income.

The Company derecognizes a financial liability (or a part of a financial liability) from its statement of balance sheet when, and only when, the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, is recognised in statement of comprehensive income.

Other new accounting standards including IFRS 15 - Revenue from contracts with customers, and amendments to existing accounting standards, effective from 1 January 2018 do not have any significant effect on the Company's financial statements.

4 Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these financial statements, the significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements as at and for the year ended December 31, 2017, except for the judgments for calculation the provision for doubtful debts which is computed under IFRS 9 (Note 3.2).

5 Other general and administrative expenses

	2018	2017
Professional fees	**3,586,572**	3,259,156
End of service benefits and vacation	**1,225,535**	505,849
Depreciation	**1,110,949**	617,368
Rentals	**1,048,742**	721,098
Medical insurance	**650,741**	514,344
Information technology	**597,633**	336,628
Marketing expenses	**441,900**	304,896
Board of director's allowances	**331,442**	670,264
Committee allowances	**114,000**	741,000
Bank charges	**83,638**	502,895
Other expenses	**2,751,836**	967,243
	11,942,988	9,140,741

6 Cash and cash equivalents

	As at December 31	
	2018	**2017**
Cash in hand	**2,628**	89,568
Current accounts with banks	**77,131,722**	27,781,381
	77,134,350	27,870,949

(All amounts in Saudi Riyals unless otherwise stated)

7 Murabaha receivables, net

	As at December 31	
	2018	**2017**
Murabaha receivables	**335,782,457**	245,989,891
Less: Unearned revenue	**(63,581,861)**	(47,151,228)
Murabaha receivables, net	**272,200,596**	198,838,663
Less: provision for doubtful debts	**(16,106,979)**	(8,000,673)
	256,093,617	190,837,990
Current portion of murabaha receivables	**116,151,031**	117,974,016
Non-current portion of murabaha receivables	**156,049,565**	80,864,647
	272,200,596	198,838,663
Less: Provision for murabaha losses	**(16,106,979)**	(8,000,673)
	256,093,617	190,837,990

The movement in provision for doubtful debts was as follows:

	2018	**2017**
Opening balance	**8,000,673**	1,948,470
Changes on initial application of IFRS 9	**981,032**	-
Charge for the year	**7,125,274**	6,052,203
Closing balance at end of the year	**16,106,979**	8,000,673

7.1 Stage wise analysis of murabaha receivables is as follows:

	Performing	Under-performing	Non-performing	Total
December 31, 2018				
Receivables	**227,800,884**	**87,523,682**	**20,457,891**	**335,782,457**
Unearned revenue	**(43,963,567)**	**(15,374,172)**	**(4,244,122)**	**(63,581,861)**
Impairment provision	**(3,533,525)**	**(1,519,152)**	**(11,054,302)**	**(16,106,979)**
Net receivables	**180,303,792**	**70,630,358**	**5,159,467**	**256,093,617**
December 31, 2017				
Receivables	84,016,522	148,110,803	13,862,566	245,989,891
Unearned revenue	(20,894,463)	(23,124,901)	(3,131,864)	(47,151,228)
Impairment provision	(956,165)	(1,339,524)	(5,704,984)	(8,000,673)
Net receivables	62,165,894	123,646,378	5,025,718	190,837,990

7.2 The movement in provision for murabaha receivables is as follows:

	2018				2017
	Performing	Under-performing	Non-performing	Total	Total
January 1,	**956,165**	**1,339,524**	**5,704,984**	**8,000,673**	1,948,470
Changes on initial application of IFRS 9	**717,574**	**385,757**	**(122,299)**	**981,032**	-
Opening loss allowance	**1,673,739**	**1,725,281**	**5,582,685**	**8,981,705**	1,948,470
Charge / (reversal) for the year	**1,859,786**	**(206,129)**	**5,471,617**	**7,125,274**	6,052,203
December 31,	**3,533,525**	**1,519,152**	**11,054,302**	**16,106,979**	8,000,673

(All amounts in Saudi Riyals unless otherwise stated)

7.3 Murabaha receivables includes an amount of Saudi Riyals 11,877,945 (December 31, 2017: Nil) relating to inventory purchased for customers. The inventory was sold to the customers before the reporting date and the amounts was subsequently disbursed to the customers immediately after the year end.

8 Due from related parties

Due from related parties represents due amounts from the Company's shareholders as well as certain employees of the Company against obtaining finance in form of murabaha contracts. Terms of those contracts were approved by the Company's Board of Directors.

		As at December 31	
	Relationship	**2018**	**2017**
Ayman Amin Sajini	Shareholder	**363,987**	420,316
Majed Romi Al Romi	Shareholder	-	912,280
Abdulaziz Abdulrahman Al Romi	Shareholder	-	620,690
Mahfoz Mostafa Kamal	Manager	-	467,270
Sultan Mohammad Al Dwesh	Shareholder	-	415,636
Zafer Ahmed Mohammad Alklali	Independent board member	-	95,892
Turki Sultan Al Dwesh	Son of shareholder	-	41,935
Anas Mohammad Al Dwesh	Brother of shareholder	-	11,688
		363,987	2,985,707

	As at December 31	
	2018	**2017**
Due from related parties	**483,750**	5,010,247
Less: Unearned revenue	**(119,763)**	(2,024,540)
	363,987	2,985,707

9 Prepayments and other receivables

	As at December 31	
	2018	**2017**
Advance payment against collateral	-	3,605,650
Advance financial interest	**5,224,010**	2,250,000
Prepayments and other receivables	**7,424,490**	3,741,639
	12,648,500	9,597,289

10 Repossessed assets held for sale

The balance represents value of real estate received from Company's customers during the year to settle part of their outstanding balance, the legal procedure needed to transfer the ownership of real estate to the Company was completed during the year. Currently, the Company set the land for sale and expects to sell it during 2019.

(All amounts in Saudi Riyals unless otherwise stated)

11 Property and equipment, net

2018	**Vehicles**	**Furniture and fixtures**	**Computer equipment**	**Leasehold improvements**	**Total**
Cost					
January 1, 2018	**679,550**	**1,441,939**	**1,089,493**	**3,828,270**	**7,039,252**
Additions during the year	**-**	**263,154**	**1,035,010**	**756,624**	**2,054,788**
Disposals during the year	**(414,250)**	**(27,220)**	**(3,300)**	**-**	**(444,770)**
December 31, 2018	**265,300**	**1,677,873**	**2,121,203**	**4,584,894**	**8,649,270**
Accumulated depreciation					
January 1, 2018	**622,656**	**661,454**	**472,124**	**218,740**	**1,974,974**
Charge for the year	**45,304**	**245,344**	**259,105**	**561,196**	**1,110,949**
Disposals during the year	**(414,250)**	**(18,450)**	**(707)**	**-**	**(433,407)**
December 31, 2018	**253,710**	**888,348**	**730,522**	**779,936**	**2,652,516**
Net book value at December 31, 2018	**11,590**	**789,525**	**1,390,681**	**3,804,958**	**5,996,754**

2017	**Vehicles**	**Furniture and furnishings**	**Computer**	**Leasehold improvements**	**Total**
Cost					
January 1, 2017	679,550	977,707	778,740	115,400	2,551,397
Additions during the year	-	464,232	310,753	3,712,870	4,487,855
December 31, 2017	679,550	1,441,939	1,089,493	3,828,270	7,039,252
Accumulated depreciation					
January 1, 2017	543,579	485,964	328,063	-	1,357,606
Charge for the year	79,077	175,490	144,061	218,740	617,368
December 31, 2017	622,656	661,454	472,124	218,740	1,974,974
Net book value at December 31, 2017	56,894	780,485	617,369	3,609,530	5,064,278

12 Sukuk

During the year, the Company obtained SAMA approval to issue private Sukuk Certificates (Sukuk) with total amount of Saudi Riyals 500 million. The first phase of Sukuk issuance amounted to Saudi Riyals 100 million.

The total tenure of the Sukuk is three years with payments (principal and profits) payable quarterly in advance. The profit distribution on the Sukuk is based on three months SIBOR plus a spread of ten percent. The Company has not defaulted on any of payments (profit / principal) due during the year and the Company has complied with terms of the covenants pertaining to the Sukuk. Further, there are no conversion options to equity relating to the Sukuk.

	As at December 31	
	2018	**2017**
Current portion	**33,333,333**	-
Non-current portion	**50,000,000**	-
	83,333,333	-

(All amounts in Saudi Riyals unless otherwise stated)

13 Loan from a related party

	As at December 31	
	2018	**2017**
Loan obtained	**75,000,000**	75,000,000
Accrued financial charges	**4,327,397**	4,327,397
	79,327,397	79,327,397

During 2016, the Company signed an agreement with a related party to obtain a long-term loan to finance the growth of its lending portfolio in order to provide a wide range of financing products to both individual and corporate clients in the Kingdom of Saudi Arabia, with products being tailored to meet a wider base of clients. The Company obtained the loan amounting Saudi Riyals 75 million, the loan is subject to 6% annual commission rate. The Company paid an amount of Saudi Riyals 2.3 million as a loan security deposit classified under Prepayments and other receivables in the financial position and the loan is secured by pledging the Company's shares to the financer. The loan will be repaid in one instalment after five years.

14 Long term loan

	As at December 31	
	2018	**2017**
Current portion	**9,887,975**	-
Non-current portion	**20,149,525**	-
	30,037,500	-

The Company obtained an interest free loan from Social Development Bank to finance small and medium entities in the Kingdom of Saudi Arabia amounting Saudi Riyals 30 million for three years. The first re-payment on the loan will be on January 1, 2019, which was paid by the Company.

15 Accrued and other liabilities

	As at December 31	
	2018	**2017**
Murabaha contract related payables (note 15.1)	**11,877,945**	-
Accrued expenses and others	**3,254,608**	4,467,015
	15,132,553	4,467,015

15.1 These pertain to amounts payable to a third party for inventory purchased for customers in relation to murabaha contracts. Such amount was settled by the Company during January 2019.

(All amounts in Saudi Riyals unless otherwise stated)

16 Provision for zakat

16.1 Provision for zakat is calculated as follows:

	As at December 31	
	2018	**2017**
(Loss) / income for the year	**(5,667,233)**	3,180,076
Provision for doubtful debts and others	**7,125,274**	7,052,203
Changes on initial application of IFRS 9	**981,032**	-
Provision of employee termination benefits	**601,919**	332,488
Utilized provisions	**(701,019)**	(283,488)
Adjusted net income	**2,339,973**	10,281,279
Share capital	**150,000,000**	100,000,000
Statutory reserves	**2,080,046**	1,762,038
Accumulated deficit	**(7,430,159)**	(7,754,741)
Long term-loan	**79,327,397**	-
Provision for impairment	**8,000,673**	1,948,470
Provision of employee termination benefits	**658,700**	609,700
Property and equipment and others	**(5,996,754)**	(5,064,278)
Zakat base	**228,979,876**	101,782,468
Zakat for the year @ 2.5%	**5,724,497**	2,544,562
Zakat for the year @10% (note 16.3)	**572,450**	-

16.2 The movement in the zakat provision is as follows:

	2018	**2017**
January 1	**9,253,214**	7,804,796
Charge during the year	**572,450**	2,537,486
Provision reversal during the year (note 16.3)	**(4,432,535)**	-
	(3,860,085)	2,537,486
Payments made during the year	**(862,211)**	(1,089,068)
December 31	**4,530,918**	9,253,214

16.3 Status of assessments

The Company has filed its zakat returns with GAZT for the years until 2017. Subsequent to the statement of financial position date, the Company had received a letter from GAZT in which the Company was offered a refund of Saudi Riyals 1,396,396 relating to tax years 2016 and 2017. Further, GAZT required the Company to compute the zakat charge for 2018 based on ten percent of zakat payable.

During February 2019, the Company had accepted the refund offer from GAZT and therefore reversed the provisions kept in relation to tax years 2016 and 2017 amounting to Saudi Riyals 4,432,535.

17 Employee termination benefits

	2018	**2017**
Opening balance	**658,700**	609,700
Current service cost	**601,919**	332,488
End of service payments during the year	**(701,019)**	(283,488)
Ending balance	**559,600**	658,700

(All amounts in Saudi Riyals unless otherwise stated)

18 Share capital

Shareholders	Holding	No. of shares	Amount
2018			
Saleh Abdullah Alsayari	**34%**	**5,107,999**	**51,079,990**
Majed Romi Al Romi	**21%**	**3,212,776**	**32,127,760**
Abdulaziz Abdulrahman Alromi	**18%**	**2,668,507**	**26,685,070**
Other	**27%**	**4,010,718**	**40,107,180**
	100%	**15,000,000**	**150,000,000**
2017			
Saleh Abdullah Alsayari	34%	5,057,999	50,579,990
Majed Romi Al Romi	19%	2,912,776	29,127,760
Abdulaziz Abdulrahman Alromi	18%	2,668,507	26,685,070
Other	29%	4,360,718	43,607,180
	100%	15,000,000	150,000,000

During 2017, the Company's General Assembly approved the Company's capital increase from Saudi Riyals 100 million to Saudi Riyals 150 million through a cash deposit from the Company's shareholders, which was proposed by the Company's Board of Directors on October 22, 2016, and authorized by SAMA on February 6, 2017.

Share capital consists of 15 million shares as of December 31, 2018 (December 31, 2017: 15 million shares). Each share has a book value of Saudi Riyals 10 as of December 31, 2018 (December 31, 2017: Saudi Riyals 10).

19 Statutory reserve

In accordance with Regulations for Companies in Saudi Arabia, the Company is required to set aside a statutory reserve, after absorption of accumulated losses, if any, by the appropriation of 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for distribution. During 2018, no transfer has been made due to losses.

20 Commitments

Capital commitments
There are no significant capital commitments at financial position date.

Operating leases commitments
Rental expenses under operating leases are charged to the statement of comprehensive income over the period of the respective lease. The Company has one operating lease contract for one year period renewing yearly with an amount of Saudi Riyals 0.75 million. Other lease contracts are not significant.

21 Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value 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 fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

Valuation models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy of financial assets and liabilities

All financial assets and liabilities of the Company are categorised as held at amortized cost which approximate their fair values.

22 Financial risk management

Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and supervising the Company's risk management framework. The Board of Directors has established the Risk Management Committee, to oversee the development and maintenance of risk management processes, policies, strategies, risk methodologies and reporting them to the Board.

In addition, the Audit Committee of the Company also reviews the internal audit risk assessment, discusses the Company's policy with respect to risk assessment and risk management. The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Risk Management Committee oversees the Company risks and reports to the Board of Directors.

(i) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to murabaha receivables customers, including outstanding receivables and due from related parties.

Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength. Where murabaha receivable customers are independently rated, such ratings are used. Where there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The compliance with credit limits by murabaha receivables customers is regularly monitored by line management.

(All amounts in Saudi Riyals unless otherwise stated)

Murabaha receivables customers are required to settle in cash or through credit cards, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions. For certain murabaha receivables the Company may obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

ii) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Company also has revolving credit facilities from commercial banks that it can access to meet future liquidity needs. Maturity profile of financial assets and liabilities are as follows:

2018	**Less than 3 months**	**3 to12 months**	**1 to 10 years**	**Total 2018**
Financial assets - commission bearing				
Murabaha receivables, net	53,548,787	62,602,245	139,942,585	256,093,617
Due from related parties	30,034	61,440	272,513	363,987
Financial assets - non commission bearing				
Cash and cash equivalents	77,134,350	-	-	77,134,350
Repossessed assets held for sale	-	2,545,800	-	2,545,800
	130,713,171	65,209,485	140,215,098	336,137,754
Financial liabilities - commission bearing				
Sukuk	8,333,333	25,000,000	50,000,000	83,333,333
Loan from a related party	4,327,397	-	75,000,000	79,327,397
Long term loan	2,486,293	7,401,682	20,149,525	30,037,500
Financial liabilities - non commission bearing				
Accrued and other liabilities	13,262,812	880,173	989,567	15,132,552
	28,409,835	33,281,855	146,139,092	207,830,782
Liquidity gap	102,303,336	31,927,630	(5,923,994)	128,306,972

2017	**Less than 3 months**	**3 to12 months**	**1 to 10 years**	**Total 2017**
Financial assets - commission bearing				
Murabaha receivables, net	78,119,163	32,965,408	79,753,419	190,837,990
Due from related parties	180,926	292,258	2,512,523	2,985,707
Financial assets - non commission bearing				
Cash and cash equivalents	27,870,949	-	-	27,870,949
Repossessed assets held for sale	-	-	2,000,000	2,000,000
	106,171,038	33,257,666	84,265,942	223,694,646
Financial liabilities - commission bearing				
Loan from a related party	4,327,397	-	75,000,000	79,327,397
Financial liabilities - non commission bearing				
Accrued and other liabilities	3,857,870	251,515	357,630	4,467,015
	8,185,267	251,515	75,357,630	83,794,412
Liquidity gap	97,985,771	33,006,151	8,908,312	139,900,234

iii) Commission rate risk

Commission rate risk is the impact on future earnings of the Company resulting from increase in the market interest rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to interest rate adjustment within a specified period. The most important source of such risk is the Company's murabaha receivables and borrowings. The commission rate is fixed for the murabaha receivables and for the loan borrowings. The Company manages such risk by ensuring that there is no significant mismatch between commission bearing assets and liabilities and therefore such risk is not considered to have a significant impact on the financial statements.

iv) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Company has no exposure to foreign currency risk as it mainly deals in Saudi Riyals which is also the functional currency of the Company.

23 Capital management

The Company's objective when managing capital are to safeguard Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits to other stakeholders and to maintain optimal capital structure to reduce the cost of capital.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of murabaha financing and the advantages and security afforded by a sound capital position. In relation to the capital structure of the Company, management closely monitors the compliance with regulations and debt covenants and as at the statement of financial position date the Company was is in compliance with the prescribe requirements. At financial position date, the management analysis of gearing ratio was as follows:

	2018	**2017**
Debt	**192,698,230**	79,327,397
Shareholders' equity	**141,861,707**	144,649,887
Debt to Equity Ratio	**136%**	55%