RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)

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

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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Independent auditor's report to the shareholders of Raya Financing 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 Raya Financing Company (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 as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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

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

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

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

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Independent auditor's report to the shareholders of Raya Financing 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.

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers

Omar M. Al Saga
License Number 369

28 February 2019

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals unless otherwise stated)

		As at 31 December	
	Note	**2018**	**2017**
Assets			
Non-current assets			
Property and equipment	5	**567,185**	477,719
Intangible assets	6	**8,273,272**	7,351,151
Net investment in finance leases - non-current portion	7	**166,135,018**	92,598,497
Financial asset at fair value through other comprehensive income	8	**892,850**	-
		175,868,325	100,427,367
Current assets			
Net investment in finance leases - current portion	7	**48,159,921**	20,508,730
Prepayments and other receivables	9	**9,226,814**	4,771,739
Cash and cash equivalents	10	**8,077,298**	22,267,032
		65,464,033	47,547,501
Total assets		**241,332,358**	147,974,868
Liabilities and equity			
Liabilities			
Non-current liabilities			
Long-term borrowings	11	**35,137,647**	-
Employee benefit obligations	12	**1,818,128**	1,387,471
		36,955,775	1,387,471
Current liabilities			
Current maturity of long-term borrowings	11	**14,891,087**	-
Accounts payable	13	**121,145,429**	73,858,595
Accrued and other liabilities	14	**6,842,424**	2,378,398
Zakat payable	15	**-**	1,551,018
		142,878,940	77,788,011
Total liabilities		**179,834,715**	79,175,482
Equity			
Share capital	16	**100,000,000**	100,000,000
Accumulated losses		**(38,502,357)**	(31,200,614)
Total equity		**61,497,643**	68,799,386
Total liabilities and equity		**241,332,358**	147,974,868
Commitments	20		

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

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2018	**2017**
Income			
Finance lease revenue	17	**26,739,222**	12,373,532
Expenses			
Provision for impairment of lease receivables	7	**(1,237,679)**	(998,055)
Insurance and other cost of financed vehicles		**(8,734,327)**	(6,742,727)
Salaries and employee related expenses		**(14,077,805)**	(8,403,901)
Rent		**(1,408,286)**	(723,603)
Depreciation and amortization	5,6	**(1,064,586)**	(1,116,563)
Other expenses	18	**(3,344,054)**	(4,977,426)
Finance cost		**(2,463,996)**	-
Loss for the year		**(5,591,511)**	(10,588,743)
Other comprehensive income			
Item that will not to be reclassified to profit or loss-			
Re-measurements of employee benefit obligations	12	**(142,767)**	(259,178)
Total comprehensive loss for the year		**(5,734,278)**	(10,847,921)

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

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Share capital	Accumulated losses	Total
Balance at 31 December 2017		100,000,000	(31,200,614)	**68,799,386**
Adjustment on adoption of IFRS 9	7	-	(1,567,465)	**(1,567,465)**
Balance at 1 January 2018		100,000,000	(32,768,079)	**67,231,921**
Loss for the year		-	(5,591,511)	**(5,591,511)**
Other comprehensive loss for the year		-	(142,767)	**(142,767)**
Total comprehensive loss for the year		-	(5,734,278)	**(5,734,278)**
Balance at 31 December 2018		**100,000,000**	**(38,502,357)**	**61,497,643**
Balance at 1 January 2017		100,000,000	(20,352,693)	79,647,307
Loss for the year		-	(10,588,743)	(10,588,743)
Other comprehensive loss for the year		-	(259,178)	(259,178)
Total comprehensive loss for the year		-	(10,847,921)	(10,847,921)
Balance at 31 December 2017		100,000,000	(31,200,614)	68,799,386

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

RAYA FINANCING COMPANY
(A Saudi Closed Joint Stock Company)
STATEMENT OF CASH FLOWS
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2018	**2017**
Cash flows from operating activities			
Loss for the year		**(5,591,511)**	(10,588,743)
Adjustments for			
Impairment of lease receivables	7	**1,237,679**	998,055
Depreciation	5	**252,641**	372,109
Amortisation	6	**811,945**	744,454
Finance costs	11	**2,463,996**	-
Gain on disposal of property and equipment		**(21,104)**	-
Employee benefit obligations	12	**382,935**	307,755
Changes in working capital			
Net investment in finance leases		**(103,992,856)**	(99,450,709)
Prepayments and other receivables		**(5,347,925)**	(3,996,257)
Accounts payable		**47,191,789**	67,807,153
Accrued and other liabilities		**4,464,026**	1,070,578
Net cash used in operating activities		**(58,148,385)**	(42,735,605)
Cash flows from investing activities			
Proceeds from disposal of property and equipment		**28,571**	-
Payments for purchase of property and equipment	5	**(349,574)**	(263,077)
Payments for purchase of intangible assets	6	**(1,734,066)**	(413,900)
Net cash used in investing activities		**(2,055,069)**	(676,977)
Cash flows from financing activities			
Zakat paid		**(1,551,018)**	-
Proceeds from long-term borrowings	11	**60,000,000**	-
Repayment of long-term borrowings	11	**(10,425,687)**	-
Interest paid	11	**(2,009,575)**	-
Net cash generated from financing activities		**46,013,720**	-
Net change in cash and cash equivalents		**(14,189,734)**	(43,412,582)
Cash and cash equivalents at beginning of year		**22,267,032**	65,679,614
Cash and cash equivalents at end of year	10	**8,077,298**	22,267,032
Supplemental cash flow information			
Non-cash operating activity-			
Employee benefit obligations transferred (from) to related parties	19.1	**95,045**	367,595
Non-cash investing activity-			
Transfer of advance for investment to financial asset at fair value through other comprehensive income		**892,850**	-

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

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Raya Financing Company (the "Company") is a Saudi closed joint stock company, registered in the Kingdom of Saudi Arabia under the commercial registration ("CR") number 2050104609 issued in Dammam on 8 Rabi II 1436H (January 28, 2015) and operating under the Saudi Arabian Monetary Agency (SAMA) approval number 351000153064 dated 25 Dhul Hijjah 1435H (October 19, 2014). The Company has obtained the license from SAMA to conduct finance leasing activities on 14 Jumada II, 1437H (March 23, 2016). The registered address of the Company is P.O. Box 6812, Dammam 31452, Kingdom of Saudi Arabia.

The accompanying financial statements include the accounts of the Company's and its following branches:

Location	CR No.
Jeddah	4030296155
Jeddah	4030296160
Riyadh	1010610746
Riyadh	1010614411
Dammam	2050115423

2 Basis of preparation

2.1 Compliance with IFRS

The financial statements of the Company for the year ended 31 December 2018 have been prepared by the management in accordance with International Financial Reporting Standards ("IFRS") as modified by SAMA for the accounting of zakat and income tax, which requires, adoption of all International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA circular number 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued through shareholders' equity under retained earnings.

2.2 Historical cost convention

These financial statements have been prepared under the historical cost convention except as otherwise disclosed in the accounting policies below.

2.3 New IFRS, IFRIC and amendments thereof, adopted by the Company

A number of new or amended standards became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting IFRS 9 Financial Instruments ("IFRS 9"). In accordance with the transitional provisions of IFRS 9, comparative figures have not been restated and the adjustment arising from the new impairment rules has been recognised in the opening statement of financial position on 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 new accounting policies and the impact of the adoption of this standard are disclosed in Note 3.7 and Note 7 respectively.

The other standards did not have any impact on the Company's accounting policies and did not require retrospective adjustments.

2.4 Standards, interpretations and amendments to published standards that will be effective for the periods commencing after 1 January 2019 and have not been early adopted by the Company

Certain new standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning 1 January 2019 or later periods, but have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below:

Title of standard	**IFRS 16 Leases**
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, 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 recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	The standard will affect primarily the accounting for the Company's operating leases. As at the reporting date, the Company has no material operating lease commitments. See Note 20. Management has performed an initial assessment and estimated that initial application of IFRS 16 will not have any significant impact on the financial statements of the Company. The actual impact of adopting the standard may change at the time of final assessment.
Date of adoption by Company	The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Company is considering to select the simplified transition approach and expects not to restate comparative amounts for the year prior to first adoption.

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

3 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below.

3.1 Foreign currency translations

(a) Functional and presentation currency

These financial statements are presented in Saudi Riyals ("SR) which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3.2 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits and short-term highly liquid investments, with original maturities up to three months, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

3.3 Net investment in finance leases

Leases in which the Company transfers substantially all the risk and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Finance leases are recorded at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments ("PVMLP) and subsequently measured at amortised cost using the effective commission rate.

Gross investment in finance leases include the total of future lease payments on finance leases including residual amount receivable ("Lease rentals"). Security deposits with right to offset against lease rentals are deducted from gross investments in finance lease. The difference between lease rentals and the cost of the leased asset including transaction costs is recorded as unearned finance income.

For presentation purposes, the unearned finance income and impairment provision for lease losses are deducted from the gross investment in finance leases.

3.4 Repossessed assets held for sale

The Company, in the ordinary course of its business, acquires certain vehicles against settlement of related net investment in finance leases. Such assets are considered as assets held for sale are initially recorded at the net realizable value of repossessed assets.

Subsequent to the initial recognition, these assets are carried at the lower of their carrying values or the related net realizable value. Changes in net realisable value and gains or losses on disposal are charged or credited to the statement of comprehensive income.

3.5 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment, if any. Depreciation is charged to the statement of comprehensive income, using the straight-line method, to allocate their cost, net of their residual values, if any, over their estimated useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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 the replaced part is derecognised.

All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

3.6 Intangible assets

Intangible assets having definite lives are stated at cost less accumulated amortisation and accumulated impairment, if any, except for intangible assets under development which are carried at cost. Amortisation is charged to the statement of comprehensive income, using the straight-line method, to allocate the cost over the estimated useful lives not exceeding seven years. The useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

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

Gains and losses on disposals, if any, are taken to the statement of comprehensive income in the period in which they arise.

3.7 Financial instruments

3.7.1 Financial assets

(i) Classification

From 1 January 2018, the Company's financial assets are classified and measured under the following categories:

- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

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

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

For assets measured at fair value through other comprehensive income, gains and losses will be recorded in other comprehensive income.

(ii) Recognition and derecognition

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

(iii) Measurement

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

<u>Subsequent measurement</u>

Subsequent measurement of financial assets is as follows:

Amortised cost

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

Equity instruments

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

Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(iv) Impairment

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

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

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

Stage 2 ("Under-performing") includes financial instruments that have had a significant increase in credit risk since initial recognition, unless they have low credit risk at the reporting date, but that do not have objective evidence of impairment. A significant increase in credit risk is presumed if a receivable is more than 30 days past due. For these assets, lifetime ECL are recognised, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the maximum contractual period during which the Company is exposed to credit risk. ECL are the weighted average credit losses, with the respective risks of a default occurring as the weights.

Stage 3 ("Non-performing") includes financial assets that have objective evidence of impairment at the reporting date. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

The Company, when determining whether the credit risk on a financial instrument has increased significantly, considers reasonable and supportable information available (e.g. days past due, customer credit scoring etc.), in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

While cash and cash equivalents and other recievables are also subject to impairment requirements of IFRS 9, these are considered as low risk and the impairment loss is not expected to be material.

Financial assets are written off only when:

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

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

3.7.2 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortised cost using the effective interest rate method.

A financial liability is derecognised when the obligation is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in statement of comprehensive income.

3.7.3 Offsetting

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

(All amounts in Saudi Riyals unless otherwise stated)

3.7.4 Classificaton of financial instruments

Impact on the amounts recognised and the classification of financial assets and liabilities from the adoption of IFRS 9 is as follows:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
			As at January 1, 2018	
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	22,267,032	22,267,032
Net investment in finance leases	Amortised cost	Amortised cost	113,107,227	111,539,762
Other receivables	Loans and receivables	Amortised cost	649,660	649,660
Financial liabilities				
Accounts payable	Other financial liabilities at amortised cost	Amortised cost	73,858,595	73,858,595
Accrued and other liabilities	Other financial liabilities at amortised cost	Amortised cost	887,427	887,427

3.7.5 Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Classification

Until 31 December 2017, the Company classified its financial assets as loans and receivables..

Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method.

Impairment of financial assets

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. The assessment was based on the following impairment indicators:

- Default or delinquency by the counter party; and
- Indications that the counter party will enter bankruptcy.

The amount of the provision was charged to the statement of comprehensive income. Financial assets are written off only in circumstances where there are no realistic prospects of recovery.

Assets carried at amortised cost

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

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

3.8 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 recognised 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 recognised for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately in the statement of comprehensive income.

3.9 Accounts payable and accruals

Liabilities are obligations to pay for goods and services received, whether or not billed to the Company. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.10 Borrowings

Borrowings are initially recognized at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, borrowings are measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

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

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

3.11 Employee benefit obligations

The Company provides end-of-service benefits to its employees. The entitlement to these benefits is usually based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds or high-quality corporate bonds.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and is recognised in the statement of comprehensive income.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the statement of financial position.

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

The calculation of defined benefit obligations is performed periodically using the projected unit credit method.

3.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

3.13 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Finance lease income is recognised over the term of the lease using the effective yield method.

Commission income on lease of motor vehicles is recognised when the lease contracts are executed, as per the agreed terms with the respective supplier.

3.14 Operating leases

Rental expenses under operating leases are charged to the statement of comprehensive income over the period of the respective lease.

3.15 Zakat and taxes

In accordance with the regulations of the General Authority for Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia, the Company is subject to zakat. As explained in Note 2.1, provision for zakat is charged to the statement of changes in equity. Additional amounts payable, if any, at the finalisation of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian income Tax law.

4 Critical accounting estimates and assumptions

The preparation of the financial statements in conformity with IFRSs 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 expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. There are no critical estimates that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve month period.

(All amounts in Saudi Riyals unless otherwise stated)

5 Property and equipment

	1 January 2018	Additions	Disposal	31 December 2018
2018				
Cost				
Vehicles	155,020	-	(108,535)	**46,485**
Furniture, fixtures and office equipment	961,875	349,574	-	**1,311,449**
	1,116,895	349,574	(108,535)	**1,357,934**
Accumulated depreciation				
Vehicles	(113,658)	(11,621)	101,068	**(24,211)**
Furniture, fixtures and office equipment	(525,518)	(241,020)	-	**(766,538)**
	(639,176)	(252,641)	101,068	**(790,749)**
	477,719			**567,185**

	1 January 2017	Additions	Disposal	31 December 2017
2017				
Cost				
Vehicles	108,535	46,485	-	155,020
Furniture, fixtures and office equipment	745,283	216,592	-	961,875
	853,818	263,077	-	1,116,895
Accumulated depreciation				
Vehicles	(90,446)	(23,212)	-	(113,658)
Furniture, fixtures and office equipment	(176,621)	(348,897)	-	(525,518)
	(267,067)	(372,109)	-	(639,176)
	586,751			477,719

Useful lives of property and equipment are as follows:

	Number of years
• Vehicles	4
• Furniture, fixtures and office equipment	3 - 5

6 Intangible assets

	Note	2018	2017
Software and license	6.1	**8,273,272**	4,280,614
Software under development		**-**	3,070,537
		8,273,272	7,351,151

(All amounts in Saudi Riyals unless otherwise stated)

6.1 Software and license

	2018	2017
Cost		
At beginning of year	**5,211,182**	5,211,182
Additions / transfers	**4,804,603**	-
At end of year	**10,015,785**	5,211,182
Accumulated amortisation		
At beginning of year	**(930,568)**	(186,114)
Charge for the year	**(811,945)**	(744,454)
At end of year	**(1,742,513)**	(930,568)
Net book value		
December 31	**8,273,272**	4,280,614

7 Net investment in finance leases

7.1 Reconciliation between gross and net investment in finance leases is as follows:

	2018	2017
Gross investment in finance leases	**305,518,198**	169,292,136
Unearned insurance income	**(40,738,009)**	(29,035,157)
Unearned finance income	**(46,301,428)**	(25,771,074)
Present value of minimum lease payments receivable	**218,478,761**	114,485,905
Provision for impairment of lease receivables	**(4,183,822)**	(1,378,678)
Net investment in finance leases	**214,294,939**	113,107,227
Investment in finance lease - non-current portion	**(166,135,018)**	(92,598,497)
Investment in finance lease - current portion	**48,159,921**	20,508,730

7.2 Maturity profile of gross investment in finance and present value of minimum lease payments receivables is as follows:

	2018	2017
Gross investment in finance leases		
Within one year	**81,445,956**	38,228,952
From one to three years	**149,776,420**	76,410,807
Three to five years	**74,295,822**	54,652,377
	305,518,198	169,292,136
Present value of minimum lease payments receivable		
Within one year	**49,519,681**	20,770,402
From one to three years	**106,533,305**	49,112,558
Three to five years	**62,425,775**	44,602,945
	218,478,761	114,485,905

(All amounts in Saudi Riyals unless otherwise stated)

7.3 The movement in provision for impairment of lease receivables is as follows:

	2018	2017
Opening balance	**1,378,678**	380,623
Adjustment on adoption of IFRS 9	**1,567,465**	-
	2,946,143	380,623
Charge for the year	**1,237,679**	998,055
Closing balance	**4,183,822**	1,378,678

As explained in Note 2, the Company elected not to restate prior period, and accordingly, the difference between previous amount of the provision for impairment calculated on incurred loss model and provision for impairment calculated on expected loss model has been recognized in the opening accumulated losses and has been presented in the statement of changes in equity.

7.4 Category-wise movement in provision for impairment of lease receivables is as follows:

	Performing	Under-performing	Non-performing	Total
Opening balance as at 1 January 2018 (calculated under IFRS 9)	608,998	164,883	2,172,262	**2,946,143**
Individual financial assets transferred to under-performing (lifetime expected credit losses)	(81,842)	127,088	(431,680)	**(386,434)**
Individual financial assets transferred to non -performing (credit-impaired financial assets)	(19,548)	(35,849)	1,577,639	**1,522,242**
Individual financial assets transferred to performing (12-month expected credit losses)	24,640	(61,044)	(486,399)	**(522,803)**
New financial assets originated or purchased	670,232	145,838	465,238	**1,281,308**
Recoveries	(185,266)	(29,973)	(444,340)	**(659,579)**
Other changes	819	-	2,126	**2,945**
Closing balance as at 1 January 2018 (calculated under IFRS 9)	**1,018,033**	**310,943**	**2,854,846**	**4,183,822**

The Company currently generates substantially all of its revenues from leasing of motor vehicles in the Kingdom of Saudi Arabia. Finance leases receivables of the Company are related to corporate and retail customers. The credit risk on net investment in finance leases is mitigated by the retention of legal title documents of the leased assets. The expected credit losses are recognized considering the historical probability of default and loss given default, which are adjusted for the potential impact of forward looking macro-economic factors, if any. The estimated value of collaterals (i.e. leased vehicles) held against credit impaired lease receivables at 31 December 2018, amounted to Saudi Riyals 7.9 million.

7.5 Category-wise gross lease receivables are as follows:

	31 December 2018	1 January 2018
Performing	**252,627,783**	142,718,294
Under-performing	**39,270,753**	17,769,389
Non-performing	**13,619,662**	8,804,453
	305,518,198	169,292,136

(All amounts in Saudi Riyals unless otherwise stated)

7.6 Category-wise lease receivables (net of impairment provision) are as follows:

	31 December 2018	1 January 2018
Performing	**251,609,750**	142,109,296
Under-performing	**38,959,810**	17,604,506
Non-performing	**10,764,816**	6,632,191
	301,334,376	166,345,993

8 Financial asset at fair value through other comprehensive income

The Company holds 89,285 shares in Saudi Finance Leasing Contracts Registry Company, a Saudi joint stock company (the "investee Company") registered in the Kingdom of Saudi Arabia Saudi for lease contracts registration, which represents 2% of total share capital of the investee Company. The investee Company is currently in development stage and has not yet started its operations. The management believes that the carrying value of the investment approximates to the fair value at December 31, 2018.

9 Prepayments and other receivable

	2018	2017
Prepayments	**3,682,415**	2,258,851
Margin against letter of guarantee	**3,000,000**	-
Insurance claims	**1,420,569**	512,593
Repossessed assets held for resale	**651,154**	953,803
Advance for investment	**-**	892,850
Other	**472,676**	153,642
	9,226,814	4,771,739

10 Cash and cash equivalents

	2018	2017
Cash in hand	**5,000**	5,000
Cash at bank	**8,072,298**	22,262,032
	8,077,298	22,267,032

11 Long-term borrowings

	2018	2017
Murabaha facilities	**49,574,313**	-
Accrued finance cost	**454,421**	-
	50,028,734	-
Long-term borrowings are presented as follows:		
Current maturity shown under current liabilities	**14,891,087**	-
Long-term borrowings	**35,137,647**	-
	50,028,734	-

The movement in long-term borrowings is as follows :

	2018	2017
Proceeds from long-term borrowings	60,000,000	-
Finance charges for the year	2,463,996	-
Less: repayment of principal	(10,425,687)	-
Less: repayment of finance charges	(2,009,575)	-
At December 31	50,028,734	-

During 2018, the Company entered into an agreement with a local commercial bank to provide Murabaha financing facility of Saudi Riyals 100 million to meet the working capital requirements of the Company, out of which Saudi Riyals 40.0 million is unutilized as of 31 December 2018. The loan is secured against corporate guarantee from certain related parties, collateral on receivables against certain leased vehicles covering at least 125% of the outstanding borrowing and 70% of loan instalments due within a year through minimum lease payments due on such receivables in the same period. The loan bears financial charges based on prevailing market rates which are based on Saudi Inter Bank Offer Rates. The carrying value of such long-term borrowings is denominated in Saudi Riyals.

The contractual maturities of long-term borrowings are as follows:

	2018	2017
Less than 6 months	8,290,175	-
6 - 12 months	8,290,175	-
Between 1 and 2 years	16,580,349	-
Between 2 and 5 years	20,725,437	-
	53,886,136	-

12 Employee benefit obligations

12.1 Employee benefit obligations - Defined benefit plan

The Company operates a defined benefit plan in line with the Labour Law requirement in the Kingdom of Saudi Arabia. The end-of-service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end-of-service benefit plan is unfunded plan and the benefit payment obligation are met when they fall due upon termination of employment.

	2018	2017
At January 1	1,387,471	1,188,133
Current service cost	393,498	300,944
Interest cost	49,443	38,020
Benefits paid	(60,006)	(31,209)
Remeasurements	142,767	259,178
Transfers (Note 19)	(95,045)	(367,595)
At December 31	1,818,128	1,387,471

(All amounts in Saudi Riyals unless otherwise stated)

12.2 Amounts recognised in the statement of comprehensive income

The amounts recognised in the statement of comprehensive income related to employee benefit obligations are as follows:

	2018	2017
Current service cost	**393,498**	300,944
Interest expense	**49,443**	38,020
Total amount recognised in profit or loss	**442,941**	338,964
Remeasurements		
Experience losses	**142,767**	259,178
Total amount recognised in other comprehensive income	**142,767**	259,178

12.3 Significant actuarial assumptions

	2018	**2017**
Discount rate	**4.3%**	3.2%
Salary growth rate	**4.3%**	3.2%
Retirement age	**60 years**	60 years

12.4 Sensitivity analysis for actuarial assumptions

	Change in assumption		**Impact on employee benefit obligations**	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	50 basis points	50 basis points	(65,173)	69,435
Salary growth rate	50 basis points	50 basis points	69,093	(65,477)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

12.5 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 7.4 years (2017: 10.5 years). The expected maturity analysis of undiscounted employee benefit obligations is as follows:

	2018	**2017**
Less than a year	**182,582**	75,739
Between 1 – 2 years	**213,902**	95,594
Between 2 – 5 years	**752,277**	390,004
Over 5 years	**2,668,575**	1,470,246
	3,817,336	2,031,583

(All amounts in Saudi Riyals unless otherwise stated)

13 Accounts payable

	Note	2018	2017
Trade		**20,331,736**	5,335,364
Related parties	19	**100,813,693**	68,523,231
		121,145,429	73,858,595

14 Accrued and other liabilities

	2018	2017
Accrued expenses	**1,760,370**	887,427
Advance from customers	**4,061,785**	1,490,971
VAT payable	**1,020,269**	-
	6,842,424	2,378,398

15 Zakat matters

15.1 Components of approximate zakat base

	2018	2017
Equity at beginning of year	**68,799,386**	79,647,307
Provisions at beginning of year	**2,706,143**	1,169,952
Adjusted net loss for the year	**(3,910,891)**	(9,251,724)
Non-current assets, as adjusted	**(8,840,457)**	(7,828,870)
Liabilities outstanding for more than one year	**10,600,901**	-
Net investment in finance leases - non-current portion	**-**	(92,598,497)
Approximate zakat base	**69,355,082**	(28,861,832)

15.2 Provision for zakat

	2018	2017
At beginning of year	**1,551,018**	1,551,018
Provision for the year	**-**	-
Paid during the year	**(1,551,018)**	-
At end of year	**-**	1,551,018

15.3 Status of final assessments

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

Subsequent to the year ended December 31, 2018, the Company has received a settlement notice from the GAZT relating to the treatment of non-current portion of net investment in its finance lease for the purposes of determination of zakat base. The notice prescribes the method to calculate the Company's zakat liability for the year ended December 31, 2018 and states that applying the same principles, the Company is entitled to a credit of Saudi Riyals 0.37 million for the years from 2016, when the Company was provided a license from SAMA to be involved in the finance lease activities, till 2017. Management is currently evaluating the settlement notice to assess whether to accept or appeal but believes that no material liability would arise in both cases.

(All amounts in Saudi Riyals unless otherwise stated)

16 Share capital

At 31 December the share capital consisting of 10 million shares of Saudi Riyals 10 each was held as follows:

Name	**County of incorporation**	**Shareholding**	
		2018	**2017**
Al Majdouie Motors Company Limited	Saudi Arabia	**20%**	20%
Al Majdouie Food Company Limited	Saudi Arabia	**20%**	20%
Majd Real Estate Development Company Limited	Saudi Arabia	**20%**	20%
Al Majdouie Logistics Company Limited	Saudi Arabia	**20%**	20%
Al Majdouie Education and Training Company Limited	Saudi Arabia	**20%**	20%
Total		**100%**	100%

The Company is ultimately owned by Al Majdouie Holding Company Limited, which is a Saudi limited liability company registered in the Kingdom of Saudi Arabia.

17 Finance lease revenue

	Note	**2018**	**2017**
Income from finance leases		**24,253,370**	11,447,681
Commission income	19	**2,485,852**	925,851
		26,739,222	12,373,532

18 Other expenses

	2018	**2017**
Software license and support	**1,083,187**	2,640,080
Board of Directors fees	**206,826**	201,615
Advertising and marketing	**591,295**	518,620
Bank charges	**309,058**	131,500
Other	**1,153,688**	1,485,611
	3,344,054	4,977,426

(All amounts in Saudi Riyals unless otherwise stated)

19 Related party transactions and balances

19.1 Significant transactions with related parties in the ordinary course of business during the year were as follows:

	2018	2017
Al Majdouie Holding Company Limited - ultimate parent company		
Support service costs charged to the Company	-	421,833
Employee benefit obligations transferred to the Company	-	(153,610)
Al Majdouie Motors Company Limited - shareholder		
Purchases	**83,747,441**	102,766,280
Employee benefit obligations transferred from / (to) the Company	**(68,294)**	521,205
Commission income on lease of motor vehicles	**1,852,833**	904,293
Al Majdouie Logistics Company Limited - shareholder		
Employee benefit obligations transferred to the Company	**163,339**	-
Al Majdouie Manufacturing Company		
Purchases	**5,284,200**	-
Al Majdouie Trading Establishment		
Rent charged to the Company	**293,996**	494,386
Key management personnel		
Salaries and benefits	**2,370,785**	720,970
Employee benefit obligations	**195,090**	26,941
Board of Directors fees	**206,826**	201,615

19.2 Accounts payable include the following amounts due to related parties:

	2018	2017
Al Majdouie Motors Company Limited - shareholder	**94,348,042**	68,039,735
Al Majdouie Manufacturing Company	**5,284,200**	-
Al Majdouie Holding Company Limited - ultimate parent company	**644,750**	368,147
Sheikh Ali Ibrahim Saleh Al Majdouie	**391,272**	97,276
Arjaa Travel and Tourism Company	**114,508**	1,820
Majd Real Estate Development Company Limited - shareholder	**29,067**	-
Al Majdouie Food Company Limited - shareholder	**1,854**	1,854
Middle East Logistics Institute	-	13,648
Al Majdouie Logistics Company Limited - shareholder	-	751
	100,813,693	68,523,231

(All amounts in Saudi Riyals unless otherwise stated)

20 Commitments

The operating lease commitments for the Company's office premises are as follows:

	2018	2017
Less than one year	**602,500**	462,950
More than a year and less than five years	**250,000**	-
Total	**852,500**	462,950

21 Fair values of financial assets and financial liabilities

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: quoted market prices (unadjusted) in active markets for identical financial assets or liabilities.
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); and
Level 3: inputs that are unobservable. This is the case for unlisted equity securities.

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.

All financial assets and financial liabilities of the Company are categorized as held at amortised cost except for financial assets at fair value through other comprehensive income. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values. The breakdown of these financial assets and liabilities is as follows:

	Note	2018	2017
Financial assets			
FVTOCI - Level 3			
Financial asset at fair value through other comprehensive income	8	**892,850**	-
At amortised cost			
Cash and cash equivalents	10	**8,077,298**	22,267,032
Net investment in finance leases	7	**214,294,939**	113,107,227
Other receivables		**4,657,443**	649,660
		227,029,680	136,023,919
Financial liabilities			
At amortised cost			
Accounts payable	13	**121,145,429**	73,858,595
Accrued and other liabilities		**1,425,315**	887,427
Long-term borrowings	11	**50,028,734**	-
		172,599,478	74,746,022
Net financial assets		**54,430,202**	61,277,897

22 Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and commission rate risk), credit risk and liquidity risk. The Company's overall risk management program, which is carried out by senior management, focuses on having cost effective funding as well as managing financial risks to minimize earning volatility and provide maximum return to shareholders. The risks faced by the Company and their respective mitigating strategies are summarized below.

22.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause a financial loss to the Company. The maximum exposure to credit risk is equal to the carrying amount of financial assets.

The management analyses credit risk into the following categories:

Net investment in finance leases

Investment in finance lease receivables is generally exposed to significant credit risk. Therefore, the Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as title on leased assets, and personal guarantees whenever considered necessary. The Company also follows a credit classification mechanism as a tool to manage the quality of credit risk of the lease portfolio and grades the individual customers based on both subjectivity and payment history taking into consideration factors such as customer credit standing, financial strength, security and quality of management.

The Company monitors customers' grading on a regular basis. The management believes that adequate provision has been accounted for, where required to address the credit risk. Further details related to net investment in finance leases and related risk are presented in Note 3.7 and Note 7 to these financial statements.

Cash and cash equivalents and other receivables

These are placed with banks having good credit ratings, and therefore are not subject to significant credit risk. Other receivables are not exposed to significant credit risk.

22.2 Commission rate risk

Commission rate risk is the uncertainty of future earnings and expenses resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities which are subject to commission rate adjustment within a specified period. The most important source of such risk is the Company's leasing activities and borrowings from commercial banks. As at the statement of financial position date, the Company has commission bearing financial assets of Saudi Riyals 214.3 million. However, the commission rates have been agreed with the respective customers. Further, the Company also had variable commission bearing financial liabilities of Saudi Riyals 50.0 million (31 December 2017: Nil), and had the commission rate varied by 1% with all the other variables held constant, total comprehensive loss for the year would have been approximately Saudi Riyals 0.5 million (31 December 2017: Nil) lower / higher, as a result of lower / higher finance cost on floating rate borrowings.

22.3 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's financial assets and liabilities are not exposed to fair value and cash flow interest rate risks.

22.4 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company's financial instruments are not exposed to price risk.

22.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company has no significant exposure to currency risk as it mainly deals in Saudi Riyals which is also the functional currency of the Company.

22.6 Liquidity risk

Liquidity risk reflects the Company's inability in raising funds to meet financial commitments. As at the 31 December 2018, the Company's contractual maturities of financial liabilities up to one year are of Saudi Riyals 139.2 million (2017: Saudi Riyals 74.7 million). The Company manages liquidity risk through availability of financing through borrowing from commercial banks. As at date of statement of financial position, the contractual maturities of the Company's financial assets and financial liabilities are as follows:

	Up to one year	One to three years	More than three years	Total
Financial assets - commission bearing:				
Gross investment in finance leases	81,445,956	149,776,420	74,295,822	**305,518,198**
Financial assets - non commission bearing:				
Cash and cash equivalents	8,077,298	-	-	**8,077,298**
Other receivables	4,657,443	-	-	**4,657,443**
2018	**94,180,697**	**149,776,420**	**74,295,822**	**318,252,939**
2017	61,145,644	76,410,807	54,652,377	192,208,828
Financial liabilities - commission bearing:				
Long-term borrowings	16,580,350	33,160,699	4,145,087	**53,886,136**
Financial liabilities - non commission bearing:				
Accounts payable	121,145,429	-	-	**121,145,429**
Accrued and other liabilities	1,425,315	-	-	**1,425,315**
2018	**139,151,094**	**33,160,699**	**4,145,087**	**176,456,880**
2017	74,746,022	-	-	74,746,022
Net financial assets (liabilities)				
Commission bearing	64,865,606	116,615,721	70,150,735	**251,632,062**
Non commission bearing	(109,836,003)	-	-	**(109,836,003)**
2018	**(44,970,397)**	**116,615,721**	**70,150,735**	**141,796,059**
2017	(13,600,378)	76,410,807	54,652,377	117,462,806

At 31 December 2018, the Company's current liabilities exceeded its current assets by Saudi Riyals 77.4 million (2017: Saudi Riyals 30.2 million) which is primarily due to a balance payable to a related party. As mentioned in Note 11, the Company has entered into an agreement with a local commercial bank for a long-term loan facility of Saudi Riyals 100 million to meet the working capital requirements of the Company, out of which Saudi Riyals 40.0 million is unutilized as of 31 December 2018. Further, the Company's ultimate shareholder has provided a letter of support to provide sufficient and adequate financial support to the Company to enable the Company to repay its liabilities as they become due.

(All amounts in Saudi Riyals unless otherwise stated)

23 Capital risk management

The Company's objective when managing capital is 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. Borrowings represent long-term borrowings from commercial bank. The management analyses the gearing ratio as follows:

	2018	2017
Equity	61,497,643	-
Borrowings	50,028,734	-
Total	111,526,377	-
Gearing ratio (borrowing as a percentage of total)	44.86%	-

24 Comparative figures

For better presentation, following reclassifications have been made in the statement of comprehensive income to conform to 2018 presentation.

	Amount previously reported	Reclassification	Amount after reclassification
Insurance and other cost of financed vehicles	(5,593,480)	(1,149,247)	(6,742,727)
Selling and marketing	(4,569,417)	4,569,417	-
General and administrative	(11,727,628)	11,727,628	-
Other expenses	(73,695)	(4,903,731)	(4,977,426)
Salaries and employee related expenses	-	(8,403,901)	(8,403,901)
Rent	-	(723,603)	(723,603)
Depreciation and amortization	-	(1,116,563)	(1,116,563)
	(21,964,220)	-	(21,964,220)

25 Date of authorization of issue

The accompanying financial statements were authorized for issue by the Board of Directors on 28 February 2019