NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTSFOR THE
YEAR ENDED DECEMBER 31, 2018
AND INDEPENDENT AUDITOR'S REPORT

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

Financial statements for the year ended December 31, 2018

pwc

Independent auditor's report to the shareholders of Nayifat Finance 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 Nayifat Finance 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 ("IFRS") as modified by the 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 December 31, 2018;
- the statement of comprehensive income for the year then ended;
- 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 a 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 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 IFRSas modified by SAMA for zakat and income tax 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 Nayifat Finance 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 taken together, 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 asendorsed 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 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 management and 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

Bader I. Benmohareb
License Number 471

March 5, 2019

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	As at December 31, 2018	2017
Assets			
Cash and cash equivalents	4	**111,231**	275,614
Short term deposits	4	**86,729**	11,371
Islamic financing receivables	5	**1,455,387**	1,517,562
Prepayments and other receivables	6	**56,503**	60,514
Intangible assets	7	**6,405**	3,696
Property and equipment	8	**36,914**	36,007
Total assets		**1,753,169**	1,904,764
Liabilities and shareholders' equity			
Liabilities			
Accounts payable and accruals	9	**20,148**	22,281
Islamic bank financing	10	**683,391**	914,221
Zakat payable	11.2	**53,302**	-
Provision for zakat	11	**42,130**	106,950
Provision of employees' end of service benefits	12	**6,450**	5,125
Total liabilities		**805,421**	1,048,577
Shareholders' equity			
Share capital	13	**850,000**	635,000
Proposed increase in share capital	13	**-**	215,000
		850,000	850,000
Statutory reserve	14	**18,261**	1,024
Retained earnings		**79,487**	5,163
Total shareholders' equity		**947,748**	856,187
Total liabilities and shareholders' equity		**1,753,169**	1,904,764

The accompanying notes (1) through (30) form an integral part of these financial statements.

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman
For Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts in thousands of Saudi Riyals unless otherwise stated)

		As at December 31,	
	Notes	**2018**	**2017**
Revenue	15	322,278	344,909
Expenses			
Finance costs	16	(51,991)	(80,116)
Reversal for impairment	5.4	14,127	1,478
Salaries and employees related expenses	17	(81,025)	(70,034)
Other general and administrative expenses	18	(29,507)	(24,209)
Depreciation and amortization	7, 8	(4,625)	(3,537)
Other income and expenses- net	19	3,111	1,087
		(149,910)	(175,331)
Net income for the year		172,368	169,578
Other comprehensive income		-	-
Total comprehensive income for the year		172,368	169,578
Basic and diluted earnings per share	20	2.03	2.08

The accompanying notes (1) through (30) form an integral part of these financial statements.

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman
For Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	Share capital	Proposed increase in share capital	Statutory reserve	Retained earnings	Total
December 31, 2017		**635,000**	**215,000**	**1,024**	5,163	**856,187**
Additional share capital	13	**215,000**	**(215,000)**	-	-	-
Total comprehensive income		-	-	-	172,368	**172,368**
Zakat reversal during the year	11.2	-	-	-	4,193	**4,193**
Transfer to statutory reserve	14	-	-	**17,237**	(17,237)	-
Dividends paid during the year	21	-	-	-	(85,000)	**(85,000)**
December 31, 2018		**850,000**	-	**18,261**	**79,487**	**947,748**
December 31, 2016		600,000	-	19,630	105,433	725,063
Adjustment on adoption of IFRS 9	13	-	-	-	(49,554)	(49,554)
January 1, 2017		600,000	-	19,630	55,879	675,509
Additional share capital		35,000	-	-	-	35,000
Total comprehensive income		-	-	-	169,578	169,578
Zakat charge for the year	11.1	-	-	-	(23,900)	(23,900)
Transfer to statutory reserve	14	-	-	16,958	(16,958)	-
Proposed increase in share capital	13	-	215,000	(35,564)	(179,436)	-
December 31, 2017		635,000	215,000	1,024	5,163	856,187

The accompanying notes (1) through (30) form an integral part of these financial statements.

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman
For Board of Directors

NAYIFAT FINANCE COMPANY
(A Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWSFOR THE YEAR ENDED DECEMBER 31, 2018
(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Notes	2018	2017
Cash flows from operating activities			
Net income for the year		**172,368**	169,578
Adjustments for non-cash items:			
Depreciation and amortization	7,8	**4,626**	3,537
Intangible assets write off	7,19	**-**	2,650
Provision of employees' end of service benefits	12	**1,996**	1,470
Provision for impairment - net	5.4	**(14,127)**	(1,478)
Finance costs	16	**51,991**	80,116
		216,853	255,873
Changes in operating assets and liabilities:			
Islamic financing receivables		**76,300**	23,248
Prepayments and other receivables		**4,011**	(2,566)
Accounts payables and accruals		**(2,133)**	(366)
Employees' termination benefits paid	12	**(671)**	(341)
Zakat paid	11.2	**(7,326)**	(4,517)
Finance cost and other charges paid		**(56,405)**	(71,682)
Net cash generated from operating activities		**230,630**	199,649
Cash flows from investing activities			
Additions to property and equipment	8	**(4,000)**	(1,089)
Additions to intangible assets	7	**(4,241)**	(3,744)
Short-term deposits and investments	4.1	**(75,358)**	1,463
Net cash used in investing activities		**(83,599)**	(3,370)
Cash flows from financing activities			
Proceeds from Islamic bank financing	10.1	**279,386**	428,704
Repayment of Islamic bank financing	10.1	**(505,800)**	(506,139)
Dividend paid	21	**(85,000)**	-
Net cash used in financing activities		**(311,414)**	(77,435)
Net (decrease)/increase in cash and cash equivalents		**(164,383)**	118,844
Cash and cash equivalents at the beginning of the year	4	**275,614**	156,770
Cash and cash equivalents at the end of the year	4	**111,231**	275,614
Supplemental non-cash information:			
Islamic financing receivables write-offs	5.3	**41,202**	48,463

The accompanying notes (1) through (30) form an integral part of these financial statements.

Chief Financial Officer

Managing Director
and
Chief Executive Officer

Chairman
For Board of Directors

1. GENERAL INFORMATION

Nayifat Finance Company (the "Company") was registered as a Closed Joint Stock Company under Commercial Registration ("CR") Number 1010176451 issued in Riyadh on 9 JumadThani 1431H (corresponding to May 23, 2010). As per the SAMA license No. 5/AS/201312 renewed on dated 23 Dhu'l-Hijjah1439 (corresponding to September 3, 2018), expiring on 26 Safar 1445 (corresponding to September 12, 2023).The Company is authorized to provide lease finance, consumer finance, small and medium enterprise finance and credit cards finance (as per renewed license) in the Kingdom of Saudi Arabia.

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

Nayifat Finance Company
P.O. Box 27389
Riyadh 11417
Kingdom of Saudi Arabia

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

2.1.1These financial statements have been prepared 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 IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax.

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

2.1.2Adoption of new standards and amendments

New standards and amendments to existing standards effective from January 1, 2018

IFRS 9 – Financial instruments, effective from January 1, 2018, was early adopted by the Company in January 1, 2017 and its effect have been incorporated in the prior year financial statements.

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

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in préparing these financial statements. None of these standards is expected to have a significant effect on the financial statements of the Company, except the following set out below:

<u>IFRS 16, Leases IFRS 16, Leases was issued in January 2016</u>

For lessees, it will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases will be 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.

The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The Company is currently assessing the impact of IFRS 16 on its current accounting practices.

Other IFRS standards or IFRIC interpretations, that are not yet effective,are not expected to have a material impact on the Company.

2.2 Functional and presentation currency

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

2.3 Cash and cash equivalents

Cash and cash equivalents consist of cash balances and short-term bank deposits with original maturities of three months or less, which are available to the Company without any restrictions.

2.4 Short-term deposits

Short-term deposits include placements with banks and other short-term liquid investments with original maturities of more than three months but not more than one year from the purchase date.

2.5 Islamic financing receivables (IFR)

IFR comprising of Tawarruq, Murabaha and Ijara 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 the gross receivables.

Tawarruq
A contract whereby the Company sells a commodity or an asset to its customer on a deferred payment basis. The selling price charged by Company comprises the cost plus an agreed profit margin. The customer sells the same commodity or an asset to a third party at market price to raise the needed cash.

Murabaha
A contract whereby the Company sells to customers a commodity or an asset, which the Company has purchased and acquired, based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

Ijara
Ijara is an agreement whereby the Company, acting as a lessor, purchases or constructs an asset for lease according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent and for a specific period. Ijara could end by transferring the ownership of the leased asset to the lessee, Ijara, Islamic financing receivables represents net investment in assets leased for period, which either approximate or cover major part of the estimated useful lives of such assets. The documentation includes an undertaking from the Company to sell the leased assets to the lessee upon maturity or early settlement of the lease

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 Intangible assets

Recognition and measurement
Intangibles assets acquired by the Company are measured at cost less accumulated amortization and accumulated impairment losses, if any. Subsequent expenditures on intangible assets are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortization
Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Intangible assets are amortized on a straight-line basis in the statement of comprehensive income over its estimated useful life, from the date on which it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.8 Property and equipment

Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset) is recognized within other income in statement of comprehensive income.

Subsequent costs
Subsequent expenditures are capitalized only when it is probable that the future economic benefits of the expenditures will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

Depreciation
Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives were as follows:

Building and freehold improvements	3 to 10 years
Leasehold improvements	5 years or period of lease whichever is lesser
Furniture and office equipment	3 to 10 years

2.9 Provisions

Provisions are recognized 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.

2.10 Impairment of non-financial assets

Non-financial assets, subsequent to depreciation and amortization, 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.

2.11 End of Service Benefits

Employee termination benefits are payable as a lump sum to all employees, under the terms and conditions of Saudi Labor Laws applicable on the Company, on termination of their employment contracts. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the Kingdom of Saudi Arabia.

The calculation of obligation is performed using the projected unit credit method to make a reliable estimate of the ultimate cost to the Company of the benefit payable to employees. Actuarial gains or losses on re-measurement of obligation are recognized immediately in the statement of other comprehensive income. Actuarial gains and losses represent changes in the present value of the obligation resulting from experience adjustments and the effects of changes in actuarial assumptions.

2.12Revenue recognition

Income from Islamic financing receivables is recognized in the statement of comprehensive income using the effective yield method, using the applicable effective profit rate ("EPR"), on the outstanding balance over the term of the contract.

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

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

2.13 Financial Instruments

a) Initial recognition

The Company initially recognizes financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

b) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through statement of comprehensive income(SOCI)), and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

c) Measurement

At initial recognition, the Company measures financial assets at its fair value, in the case of a financial asset not at fair value through SOCI, transaction costs that are directly attributable to the acquisition of financial asset. Transaction costs of financial assets carried at (FVTPL) are expensed in SOCI.

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

i) Amortized 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 amortized cost. A gain or loss on a debt instrument that is subsequently measured at amortized cost and is not part of the hedging relationship is recognized in SOCI when the asset is derecognized or impaired. Profit from these financial assets is calculated based on 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 fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, profit on financial instruments (revenue) and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to SOCI and recognized 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 amortized cost or FVOCI are measured at fair value through SOCI. A gain or loss on a debt investment that is subsequently measured at fair value through SOCI and is not part of a hedging relationship is recognized in SOCI and presented net in the SOCI statement within other gains/(losses) in the year in which it arises. Profit from these financial assets is included in the finance income.

Subsequent measurement of equity instruments
The Company 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 (FVOCI) , there is no subsequent reclassification of fair value gains and losses to profit or loss following the de-recognition of the investment. Dividends from such investments are recognized in profit or loss as other income when the Company's right to receive payments is established.

d) Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost and FVOCI.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant change in credit risk on an ongoing basis throughout each reporting period. The impairment model was developed considering probability of default and loss given default which were derived from historical data of the Company and are adjusted to reflect the expected future outcome which includes macroeconomic factors such as inflation and gross domestic product growth rate.

For financial assets, a credit loss is calculated as the present value (at effective profit rate) of the difference between:

(a) The contractual cash flows that are due to the Companyunder the contract; and
(b) The cash flows that the Company expects to receive.

The financial assets of the Company are categorized as follows:

1- Performing: these represent the financial assets where customers have a low risk of default and a strong capacity to meet contractual cash flows.

The Company's Islamic finance receivables primarily represent retail/consumer loans and therefore management believes that past due information is the most appropriate basis for assessing the increase in credit risk and based on management experience and analysis, the balances which are less than 60 days past due do not result in significant increase in credit risk and are considered as performing.

The Company measures the loss allowance for performing financial assets at an amount equal to 12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12-month expected credit losses are the portion of expected credit losses that results from default events on the financial assets that are possible within 12 months after the reporting date.

2- Underperforming: these represent the financial assets where there is a significant increase in credit risk and that is presumed if the customer is more than 60 days past due in making a contractual payment/installment.

The Company measures the loss allowance for underperforming financial assets at an amount equal to lifetime expected credit losses.

3- Non-performing: these represent defaulted financial assets. A default on a financial asset is considered when the customer fails to make a contractual payment/installment within 90 days after they fall due.

The Company measures the loss allowance for non-performing financial assets at an amount equal to lifetime expected credit losses.

Financial asset is written-off only when it is past due for at least from two years or due to regulatory requirements. 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, they are presented as part of provision for impairment-net are recognized as other income in the statement of comprehensive income/loss.

(e) Financial liabilities - classification, measurement and de recognition

Financial liabilities are classified and subsequently measured at amortized cost using the effective yield method. The relatedcost of borrowing is charged to statement of comprehensive income. 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.

The Company derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

(f) Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its Islamic financing exposure to interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

Any gains or losses arising from the changes in the fair value of derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in the statement of other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an un-recognised firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been and are expected to be highly effective throughout the financial reporting years for which they were / are designated.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the SOCI for the year.

2.14 Provision for Zakat

In accordance with the regulations of the Zakat and Income Tax in the Kingdom of Saudi Arabia, the Companies are subject to zakat attributable to the Saudi shareholder and to income taxes attributable to the foreign shareholder. Provisions for zakat and income taxes are charged to the statement of changes in equity as required by the SAMA guidance. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 year in which the estimates are revised and in any future years affected. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

1- Provision for impairment - note 2.13,note 5 and note 24
2- Provision for zakat and income tax- note 11

4. CASH AND BANK BALANCES

	As at December 31, 2018	2017
Cash in hand	**200**	274
Current accounts with banks	**111,031**	275,340
Cash and cash equivalents	**111,231**	275,614
Short-term deposits – note 4.1	**86,729**	11,371
	197,960	286,985

4.1This includes SR 70.89 million(2017: Nil) held with a local bank as a commission bearing deposit which is based on prevailing market rates and SR 13.5 million (2017:SR 8.5 million) is held with local banks as non-commission bearing deposits for bank financing facilities.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

5. ISLAMIC FINANCING RECEIVABLES

5.1 The business activities of the Company are in the Kingdom of Saudi Arabia and primarily represent Tawarruq Consumer Islamic financing, therefore considered as a single operating segment. This financing is generally provided for a period of one to five years, which is recoverable in equal monthly installments.

	As at December 31 2018	2017
Gross receivables	**2,133,917**	2,214,572
Unearned finance income	**(644,435)**	(638,004)
	1,489,482	1,576,568
Deferred initial direct costs (transaction cost)	**14,163**	17,225
	1,503,645	1,593,793
Provision for impairment	**(48,258)**	(76,231)
	1,455,387	1,517,562
Current	**442,629**	529,940
Non-current	**1,012,758**	987,622
	1,455,387	1,517,562

5.2 Stage wise analysis of Islamic financing receivables is as follow:

	Performing	Under-performing	Non-performing	Total
December 31,2018				
Receivables	**1,377,196**	**34,218**	**78,068**	**1,489,482**
Deferred initial direct costs	**12,952**	**384**	**827**	**14,163**
	1,390,148	**34,602**	**78,895**	**1,503,645**
Provision for impairment	**(7,199)**	**(1,288)**	**(39,771)**	**(48,258)**
Net receivables	**1,382,949**	**33,314**	**39,124**	**1,455,387**
December 31, 2017				
Receivables	1,358,040	45,256	173,272	1,576,568
Deferred initial direct costs	15,432	507	1,286	17,225
	1,373,472	45,763	174,558	1,593,793
Provision for impairment	(13,908)	(1,056)	(61,267)	(76,231)
Net receivables	1,359,564	44,707	113,291	1,517,562

5.2.1 Non-performing IFR include SR 25.12million (December 31, 2017: SR 28 million) and SR 23.43million (December 31, 2017: SR 30 million) past due between 12 to 18 months and more than 18 months, respectively. The management believes adequate provision has been recorded against such receivables.

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

	Performing	Under-performing	Non-performing	Total
January 1, 2018	**13,908**	**1,056**	**61,267**	**76,231**
Transfer from performing	**(743)**	**285**	**458**	**-**
Transfer from under-performing	**511**	**(944)**	**433**	**-**
Transfer from non-performing	**3,062**	**151**	**(3,213)**	**-**
Financial assets – settled	**(2,767)**	**(341)**	**(10,704)**	**(13,812)**
Financial assets originated	**2,369**	**25**	**33**	**2,427**
Net re-measurement of loss allowance	**(9,141)**	**1,056**	**32,701**	**24,614**
	(6,709)	**232**	**19,706**	**13,229**
Write-off during the year	**-**	**-**	**(41,202)**	**(41,202)**
December 31, 2018	**7,199**	**1,288**	**39,771**	**48,258**

(All amounts in thousands of Saudi Riyals unless otherwise stated)

	Performing	Under-performing	Non-performing	Total
Balance at December 31, 2016	154	205	53,898	54,257
Adjustment on adoption of IFRS 9	12,950	928	35,676	49,554
Balance at January 1, 2017	13,104	1,133	89,574	103,811
Transfer from performing	(1,573)	410	1,163	-
Transfer from under-performing	397	(767)	370	-
Transfer from non-performing	1,879	367	(2,246)	-
Financial assets – settled	(2,344)	(380)	(1,606)	(4,330)
New financial assets originated	3,638	84	2,092	5,814
Net re-measurement of loss allowance	(1,193)	209	20,383	19,399
	804	(77)	20,156	20,883
Write-offs during the year	-	-	(48,463)	(48,463)
Balance at December 31, 2017	13,908	1,056	61,267	76,231

5.4 Provision for impairment- net

	As at December 31, 2018	2017
Provision for impairment chargefor year	**13,229**	20,883
Recoveries after written-off	**(27,356)**	(22,361)
Net	**(14,127)**	(1,478)

5.5 Assignment of Islamic financing receivables

The Company assigned Islamic financing receivables amounting to SR 0.87 billion (December 31, 2017: SR 1.09 billion) to local commercial banks for obtaining Islamic bank financing. These Islamic financing receivables have not been derecognized from the statement of financial position as the Company retains substantially all the risks and rewards, primarily credit risk. The amount received on assignment of Islamic financing receivables has been recognized as Islamic bank financing in the statement of financial position.

6. PREPAYMENTS AND OTHER RECEIVABLES

	Note	As at December 31, 2018	2017
Receivable from key management personnel	6.1,21.3	**23,333**	35,000
Repossessed assets held for sale – real estate	6.2	**20,669**	20,669
Advances, prepayments and others		**11,608**	4,845
Equity investment at FVOCI		**893**	-
		56,503	60,514

6.1 This representsoutstanding balance of non-commission bearing loans given to executives, for three years repayable in monthly instalments, as approved in the General Assembly meeting in 2017after obtaining the necessary regulatory approval.

6.2 This represents properties in the Kingdom of Saudi Arabia which were repossessed by the Company against settlement of Islamic finance receivables.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

7. INTANGIBLE ASSETS

	As at December 31, 2018	2017
Cost:		
January 1,	**5,681**	4,587
Additions during the year	**4,241**	3,744
Write-off during the year (note 19)	**-**	(2,650)
December 31,	**9,922**	5,681
Accumulated amortization:		
January 1,	**(1,985)**	(1,330)
Charge during the year	**(1,532)**	(655)
December 31,	**(3,517)**	(1,985)
Net book value as at December 31,	**6,405**	3,696

8. PROPERTY AND EQUIPMENT

2018	**Freehold land**	**Building and freehold improvements**	**Leasehold improvements**	**Furniture and office equipment**	**Total**
Cost					
January 1,	**27,963**	**4,512**	**6,719**	**5,083**	**44,277**
Additions during the period	**-**	**314**	**1,314**	**2,372**	**4,000**
December 31,	**27,963**	**4,826**	**8,033**	**7,455**	**48,277**
Accumulated depreciation					
January 1,	**-**	**902**	**3,786**	**3,582**	**8,270**
Adjustments	**-**	**(74)**	**74**	**-**	**-**
Charge for the period	**-**	**803**	**1,257**	**1,033**	**3,093**
December 31,	**-**	**1,705**	**5,043**	**4,615**	**11,364**
Net book value	**27,963**	**3,121**	**2,990**	**2,840**	**36,914**

2017	**Freehold land**	**Building and freehold improvements**	**Leasehold improvements**	**Furniture and office equipment**	**Total**
Cost					
January 1,	27,928	4,512	6,095	4,653	43,188
Additions during the year	35	-	624	430	1,089
December 31,	27,963	4,512	6,719	5,083	44,277
Accumulated depreciation					
January 1,	-	-	2,675	2,713	5,388
Charge for the year	-	902	1,111	869	2,882
December 31,	-	902	3,786	3,582	8,270
Net book value	27,963	3,610	2,933	1,501	36,007

9. ACCOUNTS PAYABLE AND ACCRUALS

	As at December 31, 2018	2017
Accrued key management fees and employee bonus	**6,319**	9,650
Accrued expenses	**4,115**	4,038
Accounts payable	**446**	769
Accrued employees' costs	**3,539**	1,937
Other – note 9.1	**5,729**	5,887
	20,148	22,281

9.1 This includes unidentified collections amounting to SR 5.4 million (2017: SR 5.4 million)

(All amounts in thousands of Saudi Riyals unless otherwise stated)

10. ISLAMIC BANK FINANCING

	Note	As at December 31, 2018	2017
Current		**337,312**	487,622
Non-current		**347,385**	**423,489**
	10.1	**684,697**	**911,111**
Accrued Finance Cost	10.1	**1,704**	**1,753**
		686,401	**912,864**
Unamortized deferred charges - transaction costs		**(4,610)**	**(6,582)**
		681,791	**906,282**
Unrealized loss on fair valuation of derivatives	16	**1,600**	**7,939**
		683,391	**914,221**

The Company has long-term financing facilities with banks to finance current and long-term funding needs, primarily to finance Islamic finance receivables, amounting to SR 1.19billion of which SR 0.68billion was utilized as of December 31, 2018 (December 31, 2017: SR 0.91 billion). These financing facilities are repayable in 36 to 48 monthly instalments. The future finance costs charge on the existing utilized facilities amounts to SR 53 million on prevailing profit rates, some of which are subject to reprisingduring term of financing. The key covenants related to bank financing are to maintain a certain gearing ratio, financing to receivable ratio. The Company was in compliance with these covenants as at financial position date.

The financing bears commission charges at prevailing market rates. The Company has fixed the profit rates through derivatives i.e. Islamic profit rate swap agreement with the banks for notional amount of SR 323million. The settlement dates are in line with the respective financing repayments.

10.1 The movement schedule of Islamic bank financing isas follows:

	Principal	Accrued Finance cost	Total
Payable as at January 1, 2018	**911,111**	**1,753**	**912,864**
Proceeds / charge during the year	**279,386**	**49,971**	**329,357**
Payments during the year	**(505,800)**	**(50,020)**	**(555,820)**
Payable as at December 30, 2018	**684,697**	**1,704**	**686,401**

	Principal	Accrued Finance cost	Total
Payable as at January 1, 2017	988,546	2,963	991,509
Proceeds / charge during the year	428,704	64,262	492,966
Payments during the year	(506,139)	(65,472)	(571,611)
Payable as at December 31, 2017	911,111	1,753	912,864

(All amounts in thousands of Saudi Riyals unless otherwise stated)

11. PROVISION FOR ZAKAT

11.1 Movement in Provision for zakat for the period is as follows:

	As at December 31, 2018	2017
January 1,	**106,950**	87,567
Charge for the year	**17,237**	23,900
Reversal of prior year charge (note 11.2)	**(21,430)**	-
	(4,193)	23,900
Transfer to zakat payable (for the years 2014 to 2018)	**(53,302)**	-
Payments during the year	**(7,325)**	(4,517)
December 31,	**42,130**	106,950

11.2 Status of assessments

The Company has submitted its zakat declarations to the General Authority of Zakat and Tax (GAZT) uptothe year ended December 31, 2017.

Up to 2013
The Company has received final zakat assessments for the years from 2002 to 2008.

For the years 2009 to 2013, the Company has submitted the zakat returns and GAZT is yet to raise the final assessment/settlement. As per the assessment of Company, there are adequate provisions available to settle the GAZT assessment.

From 2014 to 2017
Before the year end, the GAZT officials suggested the possibility of settlement of zakat/tax in line with the settlement made by Banks whereby 10% of the accounting profit will be the settlement of Zakat. Subsequent to the year end, the Company received and signed-off the settlement offer with the GAZT for the years 2014-2017. As per the settlement offer, the Company is required to pay Zakat of SR 36.06 million with 20% down payment and the rest to be paid in equal installments for the next 5 years payable in December of each subsequent year with final payment in December2023.

Accordingly, the management has considered this as an adjusting event after the financial position date and updated the financial statements.

For 2018
The GAZT has also given the option to the Company to pay 10% of the accounting profit as full and final discharge of Zakat/Tax liability for the year ended December 31, 2018. Accordingly, the liability has been recognized in these financial statements.

12 PROVISION OF EMPLOYEES' END OF SERVICEBENEFITS

	As at December 31, 2018	2017
January 1,	**5,125**	3,996
Charge for the year	**1,996**	1,470
Payments made during the year	**(671)**	(341)
December 31,	**6,450**	5,125

The provision of this defined benefit plan is based on projected unit credit method. The key assumptions used in current and prior year include 5% salaries increment and 4% discount rate. The change in assumptions will not have significant effect on the provision as at December 31, 2018.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

13 SHARE CAPITAL

Shareholders	Holding	No. of shares	Amounts in SR
December 31,2018			
Falcom Holding Company	**71.68%**	**60,925,773**	**609,257,730**
Falcom Private Equity Fund	**2.95%**	**2,505,827**	**25,058,270**
Others	**25.37%**	**21,568,400**	**215,684,000**
	100%	**85,000,000**	**850,000,000**
December 31, 2017			
Falcom Holding Company	71.68%	45,515,136	455,151,360
Falcom Private Equity Fund	2.95%	1,872,000	18,720,000
Others	25.37%	16,112,864	161,128,640
	100%	63,500,000	635,000,000

Increase in share capital by SR 215million

During the year, SAMA gave its approval to increase the Company's share capital from SR 635 million to SR 850million, through issuance of bonus shares, which was proposed by the Board of Directors of the Company and approved by the General Assembly on February 28, 2018, and accordingly, reflected in the statement of changes in shareholders'equity the updated commercial registration was obtained during March 2018.Accordingly, the weighted average number of shares to calculate earnings per share has been retrospectively adjusted.

14 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 at least 10% of net income until the reserve equals 30% of the share capital. This reserve is not available for distribution. Such transfer is made to the statutory reserve account on annual basis at year-end.

15 REVENUE

	As At December 31, 2018	2017
Income from Islamic financing	**321,636**	345,557
Amortization of transaction costs	**(10,920)**	(13,006)
	310,716	332,551
Fee and commission income	**11,562**	12,358
	322,278	344,909

16 FINANCE COSTS

	As at December 31, 2018	2017
Finance costs on Islamic bank financing – note 10.1	**49,971**	64,262
Amortization of deferred charges	**3,823**	4,417
(Gain)/loss on fair valuation of derivatives – note 10	**(6,339)**	7,939
Bank charges	**4,536**	3,498
	51,991	80,116

17 SALARIES AND EMPLOYEES RELATED EXPENSES

	As at December 31, 2018	2017
Salaries and employee related costs	**49,390**	46,234
Management fees and bonus – note 17.1	**31,635**	23,800
	81,025	70,034

17.1 This includes employees long-term incentive charge of SR 11.6 million (2017: Nil).

18 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	As at December 31, 2018	2017
Insurance	**5,035**	5,209
Rentals	**3,417**	2,994
Legal and professional charges	**4,620**	3,894
Utilities, telephone and communication	**2,911**	2,684
Repairs, maintenance and office supplies	**2,274**	1,973
IT support charges	**2,076**	1,414
Exchange traded fund valuation impact	**3,795**	4,022
Other	**5,379**	2,019
	29,507	24,209

19 OTHER INCOME AND(EXPENSES) - NET

	As at December 31, 2018	2017
Intangible assets written-off – note 7	**-**	(2,650)
Rental income	**1,142**	1,362
Income on short-term deposit - murabaha	**1,969**	2,375
	3,111	1,087

20 EARNINGS PER SHARE

	As at December 31, 2018	2017
Net income	**172,368**	169,578
Weighted average number of shares in thousands –note 20.1	**85,000**	81,679
Basic and diluted EPS in Saudi Riyals	**2.03**	2.08

20.1 Reconciliation of weighted average number of shares (in thousands)

	As at December 31, 2018	2017
January 1	**60,179**	60,000
Effect of weighted average due to shares issues during the year	**-**	179
	60,179	60,179
Bonus shares issue during the year	**21,500**	21,500
Effect of shares issued in prior year - 2017	**3,321**	-
December 31	**85,000**	81,679

21 RELATED PARTY TRANSACTIONS AND BALANCES

21.1 Significant related party transactions during the period were as follows:

Related party	Nature of transaction	December 31, 2018	December 31, 2017
Shareholders	Cash dividend declared and paid	**85,000**	-
Key management personnel	Compensation for the period	**21,401**	24,242
	Long-term incentive	**11,667**	-
	Employees' termination benefits	**614**	490
Other related parties	Zakat/VAT consultancy fee	**427**	180
	IT software services rendered	**2,594**	1,298
Affiliates	Commodities/ securities dealings account - deposit made	**4,000**	3,000
	Rental charge	**273**	130
	Advisory charges and others	**1,122**	719

21.2 Key management personnel of the Company include all directors, executive and non-executive, and senior management.

21.3 Significant balances of related parties as at statement of financial position date were as follows:

	Note	As at December 31, 2018	2017
Receivables from / advances to related parties			
Affiliates – short term deposit	4	**2,340**	2,871
Receivable from key management personnel	6	**23,333**	35,000
Advances to other related party			
Payables / Accruals	6	**731**	-
Key management compensation payable		**7,063**	9,650

22 CONTINGENCY AND COMMITMENTS

Contingency
The contingency related to zakat and income tax is disclosed in note 11 to these financial statements. The Company has certain legal cases pending in courts against it.However, based on management's best estimate no significant contingencies exist as at December 31, 2018.

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

(All amounts in thousands of Saudi Riyals unless otherwise stated)

Operating leases commitments

The Company's operating leases commitments are only for branches office premises and are not considered as significant. The related commitments as at statement of financial position date are as follows:

	As at December 31,	
	2018	**2017**
Less than one year	**3,162**	2,928
More than a year and less than five years	**6,503**	6,415
Over five years	**59**	388
Total	**9,724**	9,731

23 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 by 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, except derivatives, which is carried at fair value and of insignificant amount, of the Company, are categorised as held at amortized cost, which approximate their fair value, and accordingly fair value hierarchy disclosure has not been provided.

24 FINANCIAL RISK MANAGEMENT

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

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 report to the Board.

i) Credit risk

Credit risk is the risk that one party of a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum exposure to credit risk is equal to the carrying amount of financial assets. The Company's management analyses credit risk in the following categories:

Islamic financing receivables (IFR)

IFR are exposed to significant credit risk. The Company has established procedures to manage credit exposure including evaluation of credit worthiness, formal credit approvals, assigning credit limits, and obtaining collateral such as personal guarantees. The overall underwriting decision is based on the following key parameters:

- Dual credit score i.e. SIMAH and Application scoring system
- Minimum income level and maximum debt burden of the borrower
- Loan repayment history with other financial institutions sourced from SIMAH
- Salary certificate from the employer and last three months bank statement where the customer's monthly salary is credited.

Customers are requested to provide standing instructions to credit Nayifat account towards monthly installments. In addition, the customers also provide direct debit mandate as a stand by repayment mode. The Company generally receives repayments through SADAD and bank transfers. The Company has an approved collection policy and procedure manual establishing a collection strategy to follow up with delinquent customers. The Company has strengthened its legal department to be actively involved in the collection process of delinquent customers.

The concentration of credit risk is the risk that the Company is exposed to if they invested all their assets in one sector or one industry. The Company manages its credit risk exposure through diversification of principal activity to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

The Company strategy is to finance Saudi nationals under the following categories:

- Customers employed in a secured working environment.
- Steady income group with largely guaranteed employment or minimum loss of employment.
- Employees of selected large-scale private sector companies.

The Company's operations are in the Kingdom of Saudi Arabia and the Company currently provides only one product "financing to Saudi individuals from government and private sectors". Accordingly, the Company's operations represent single operating segment. None of the customer generates more than 10% of the revenue.

The main consideration for the impairment assessment includes whether any monthly contractual payments are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company's provision methodology is based on the default probability calculated on forward flow rates of past twenty-four months and adjusted by the outlook of the economy. The Company's management believes that adequate provision has been made, where required to address the credit risk. Moreover, the Company in the ordinary course of providing finance receivables are subject to additional personal guarantees for security to mitigate credit risk associated with IFR. For additional details, relating to IFR and related risk refer note 2.12 and note 5 to these financial statements.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

Cash and bank balances and other receivables

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

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. The company established a liquidity contingency policy and set aside SR 70 million (2017: SR 70 million) as liquidity contingency fund.

As at the statement of financial position date, based on the following contractual maturity profile of financial assets and liabilities as analyzed by the management, the Company is not exposed to liquidity risk.

December 31, 2018	Less than 3 months	3 to 12 months	1 to 5 years	Total 2018
Financial assets - commission bearing				
Islamic financing receivables– Gross	255,967	526,721	1,351,229	2,133,917
Short-term deposits	70,890	-	-	70,890
	326,857	526,721	1,351,229	2,204,807
Financial assets - non commission bearing				
Cash and cash equivalents	111,231	-	-	111,231
Other assets	2,917	8,750	11,666	23,333
Short-term deposits	-	15,839	-	15,839
	114,148	24,589	11,666	150,403
Total financial assets	441,005	551,310	1,362,895	2,355,210
Financial liabilities - commission bearing				
Islamic bank financing	(108,614)	(228,698)	(347,385)	(684,697)
Financial liabilities - non commission bearing				
Payable and accruals	(9,242)	(1,858)	(9,048)	(20,148)
Total financial liabilities	(117,856)	(230,556)	(356,433)	(704,845)
Net financial assets:				
Commission bearing	218,243	298,023	1,003,844	1,520,110
Non-commission bearing	104,906	22,731	2,618	130,255
	323,149	320,754	1,006,462	1,650,365

(All amounts in thousands of Saudi Riyals unless otherwise stated)

December 31, 2017	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total 2017**
Financial assets - commission bearing				
Islamic financing receivables– Gross	192,143	552,710	1,469,719	2,214,572
Financial assets - non commission bearing				
Cash and cash equivalents	275,614	-	-	275,614
Other assets	2,917	8,750	23,333	35,000
Short-term deposits	-	11,371	-	11,371
	278,531	20,121	23,333	321,985
Total financial assets	470,674	572,831	1,493,052	2,536,557
Financial liabilities - commission bearing				
Islamic bank financing	(129,612)	(358,010)	(423,489)	(911,111)
Financial liabilities - non commission bearing				
Payable and accruals	(13,681)	(8,600)	-	(22,281)
Total financial liabilities	(143,293)	(366,610)	(423,488)	(933,391)
Net financial assets:				
Commission bearing	62,531	194,700	1,046,231	1,303,462
Non-commission bearing	264,850	11,521	23,333	299,704
	327,381	206,221	1,069,564	1,603,166

iii) Profit rate risk

Profit rate risk is the impact on future earnings of the Company resulting from change in the market profit rates. The risk arises when there is a mismatch in the assets and liabilities, which are subject to profit rate adjustment within a specified year. The most important source of such risk is the Company's financing receivables and Islamic bank financing. The profit rate is fixed for the financing receivables andfor the major portion of borrowing as explained in note 10 of these financial statements.

The financial liabilities of SR 323million are based on floating rates and not subject to profit rate swap and thus, a 100 basis points change in commission rates could have approximately a SR 5 million annual effect on the Company's profitability. The Company's management monitors the fluctuations in commission rates on regular basis and take appropriate measures to minimize the profit rate risk by adjusting lending rate for future contracts.

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 that is also the functional currency of the Company.

(All amounts in thousands of Saudi Riyals unless otherwise stated)

25 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 Islamic bank 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 Islamic bank financing covenants and as at the statement of financial position date the Company was is in compliance with the prescribe requirements.

At statement of financial position date, the management analysis of gearing ratio was as follows:

	2018	2017
Shareholders' equity	**947,748**	856,187
Islamic bank financing	**683,391**	914,221
Total capital structure	**1,631,139**	1,770,408
Gearing ratio	**41.90%**	51.64%

26 FINANCIAL INSTRUMENTS

	Note	2018	2017
Financial assets – at amortized cost			
Cash and cash equivalents	4	**111,231**	275,614
Short term deposits	4	**86,729**	11,371
Islamic financing receivables	5	**1,455,387**	1,517,562
Other receivables	6	**23,333**	35,000
Financial liabilities – at amortized cost			
Payables and accruals	9	**20,148**	22,281
Islamic bank financing	10	**681,791**	906,282
Financial liabilities – at fair value			
Unrealized loss on fair valuation of derivatives	10	**1,600**	7,939

(All amounts in thousands of Saudi Riyals unless otherwise stated)

27 Branches including Head Office

The results of the following branches were included as part of these financial statements.

Serial No.	Commercial registration number of Branch	Location
1	1010176451	Riyadh - Exit 10 (Head Office)
2	1010361769	Riyadh - Exit 28 Badiyah
3	1010609169	Riyadh - Exit 13 Khurais
4	1010609170	Riyadh – Olaya
5	1011019025	Kharj
6	1131046727	Qassim
7	2050117283	Dammam
8	2055025208	Jubail
9	2250049662	Hafuf
10	2511018370	Hafr Al Baten
11	3350040719	Hail
12	3400017276	Sakaka
13	3550029238	Tabuk
14	4030189485	Jeddah
15	4030285686	Jeddah – Fayha
16	4031080772	Makkah
17	4032034699	Taif
18	4650052613	Madinah
19	5800020441	Baha
20	5850068147	Abha
21	5900020800	Jizan
22	5950032171	Najran
23	2053112169	Qatif
24	1116009153	Al Dawadmi Branch

28 COMPARATIVE FIGURES

Certain comparative amounts in these financial statements relating to 2017 have been reclassified for the purpose of better presentation.However, the effect of this and other reclassifications were not considered as significant.

29 SUBSEQUENT EVENT

There was no subsequent event after the year-end, except for Zakat as disclosed in note 11.2 of these financial statements, which require disclosure or adjustment in these financial statements.

30 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved and authorised for issue by the Board of Directors of the Company on March 4, 2019.