OSOUL MODERN FOR FINANCING COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

(UNADITED) INTERIM CONDENSED FINANCIAL STATEMENTS AND REVIEW REPORT

FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2018

REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF OSOUL MODERN FOR FINANCING COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTRODUCTION

We have reviewed the accompanying interim statement of financial position of Osoul Modern for Financing Company (A Saudi Closed Joint Stock Company) (the "Company") as at 30 September 2018 and the related interim statements of comprehensive income for the three and nine months period then ended, cash flows and changes in shareholders' equity for the nine-months period then ended, and the explanatory notes (the "interim condensed financial statements"). Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of these interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

OTHER MATTERS

The financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unqualified opinion dated February 28, 2018.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not presented fairly, in all material respects, in accordance with IAS 34 as modified by SAMA for the accounting of zakat and income tax.

Al-Bassam & Co.
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OSOUL MODERN FOR FINANCING COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018

	Note	30 September 2018 SR	31 December 2017 SR
		(Un-audited)	(Audited)
ASSETS			
Cash and cash equivalents		**22,167,937**	18,194,751
Net investment in islamic financing	5	**117,108,647**	114,014,260
Prepayment and other receivables		**732,920**	450,444
Investment- fair value through OCI	7	**892,850**	892,850
Property and equipment		**1,223,486**	1,230,304
TOTAL ASSETS		**142,125,840**	134,782,609
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable and other liabilities		**5,642,755**	3,645,324
Zakat provision	14	**2,760,954**	3,703,249
End-of-service indemnities		**1,629,357**	1,426,223
TOTAL LIABILITIES		**10,033,066**	8,774,796
SHAREHOLDERS' EQUITY			
Share capital	8	**100,000,000**	100,000,000
Statutory reserve	9	**3,329,088**	3,329,088
Retained earnings		**28,763,686**	22,678,725
TOTAL SHAREHOLDERS' EQUITY		**132,092,774**	126,007,813
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**142,125,840**	134,782,609

The accompanying notes form an integral part of these interim condensed financial statement

INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

	Note	FOR THREE-MONTH PERIOD ENDED		FOR NINE-MONTH PERIOD ENDED	
		30 September 2018 SR (Un-audited)	30 September 2017 SR (Un-audited)	**30 September 2018 SR (Un-audited)**	30 September 2017 SR (Un-audited)
FINANCE INCOME					
Finance income		**4,516,521**	4,737,031	**15,389,466**	14,287,955
Operating income		**4,516,521**	4,737,031	**15,389,466**	14,287,955
General and administration expenses		**(2,091,631)**	(1,935,326)	**(6,797,679)**	(5,538,365)
(Allowance) / Reversal for credit loss	5	**997,320**	--	**2,020,509**	--
Other income		**9,133**	41,067	**36,933**	133,733
NET INCOME FOR THE PERIOD		**3,431,343**	2,842,772	**10,649,229**	8,883,323
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**3,431,343**	2,842,772	**10,649,229**	8,883,323

The accompanying notes form an integral part of these interim condensed financial statements.

OSOUL MODERN FOR FINANCING COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018

	Notes	Share Capital SR	Statutory Reserve SR	Retained Earnings SR	Total SR
Balance as at 1 January 2017- (Audited)		100,000,000	2,086,775	15,579,659	117,666,434
Net profit for the period		-	-	8,883,323	8,883,323
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the period		-	-	8,883,323	8,883,323
Zakat for the period		-	-	(2,702,132)	(2,702,132)
Net profit after zakat		-	-	6,181,191	6,181,191
Balance as at 30 September 2017 - (Un-audited)		100,000,000	2,086,775	21,760,850	123,847,625

	Notes	Share Capital SR	Statutory Reserve SR	Retained Earnings SR	Total SR
Balance as on 1 January 2018 - (Audited)		**100,000,000**	**3,329,088**	**22,678,725**	**126,007,813**
Impact of adoption of new standard as at 1 January 2018	3,5	**-**	**-**	**5,196,686**	**5,196,686**
Restated balance as at 1 January 2018		**100,000,000**	**3,329,088**	**27,875,411**	**131,204,499**
Net profit for the period		**-**	**-**	**10,649,229**	**10,649,229**
Other comprehensive income for the period		**-**	**-**	**-**	**-**
Total comprehensive income for the period		**-**	**-**	**10,649,229**	**10,649,229**
Zakat for the period	14	**-**	**-**	**(2,760,954)**	**(2,760,954)**
Net profit after zakat		**-**	**-**	**7,888,275**	**7,888,275**
Dividends during the period	15	**-**	**-**	**(7,000,000)**	**(7,000,000)**
Balance as at 30 September 2018 - (Un-audited)		**100,000,000**	**3,329,088**	**28,763,686**	**132,092,774**

The accompanying notes form an integral part of these interim condensed financial statements.

INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018

	Note	30 September 2018 SR (Un-audited)	30 September 2017 SR (Un-audited)
OPERATING ACTIVITIES			
Net profit for the period		**10,649,229**	8,883,323
Adjustments for:			
Depreciation		**229,518**	226,953
Provision for end-of-service indemnities		**227,331**	129,798
Reversal for credit loss		**(2,020,509)**	-
Changes in operating assets and liabilities:			
Net investment in islamic financing		**4,122,808**	(18,886,530)
Prepayment and other receivables		**(282,476)**	298,878
Accounts payable and other liabilities *		**(1,502,569)**	(1,413,724)
Cash generated from / (used in) operations		**11,423,332**	(10,761,302)
End-of-service indemnities paid		**(24,197)**	(23,438)
Zakat paid		**(3,703,249)**	(3,520,668)
Net cash generated from / (used in) operating activities		**7,695,886**	(14,305,408)
INVESTING ACTIVITY			
Purchase of property and equipment		**(222,700)**	(56,130)
Net cash used in investing activity		**(222,700)**	(56,130)
FINANCING ACTIVITY			
Dividends during the period *	15	**(3,500,000)**	--
Net cash used in financing activity		**(3,500,000)**	--
NET CHANGE IN CASH AND CASH EQUIVALENTS		**3,973,186**	(14,361,538)
Cash and cash equivalents at the beginning of the period		**18,194,751**	28,644,140
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**22,167,937**	14,282,602

*** NON-CASH TRANSACTIONS**

Dividends during the period	**3,500,000**	-
Accounts payable and other liabilities	**(3,500,000)**	-

The accompanying notes form an integral part of these interim condensed financial statements.

1. LEGAL STATUS

Osoul Modern for Financing Company ("the Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030149475 issued in Jeddah on 6 Rabi Al Awwal 1425H (26 April 2005G).

The approval of the Saudi Arabian Monetary Agency (SAMA) in its letter No, 351000095767 dated 23 Jamada Alawal 1435H (23 March 2014G) and the issuance of Ministerial Decision No, 32 / S dated 2 Jumada Althani 1436H corresponding to 21 January 2015.

The principal activity of the Company is finance lease and finance small and medium size entities and consumable finance.
The Company's Head Office is located at the following address;
Osoul Modern for Financing Company
Jeddah, Kingdom of Saudi Arabia

2. BASIS OF PREPARATION

Statement of compliance

The interim condensed financial statements for the six-month period ended 30 September 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2017. Accounting policies are consistent with the Company's annual financial statements as at 31 December 2017, expect for newly adopted accounting standards mentioned in note 4. The Company has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018 and accounting policies for these new standards are disclosed in the note 3. Significant judgments and estimates relating to impairment are disclosed in the financial risk management note considering IFRS 9 first time adoption.

Basis of measurement

These interim condensed financial statements have been prepared under the historical cost convention.

Functional and presentational currency

These interim condensed financial statements have been presented in Saudi Riyals (SAR) which is the Company's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Riyal, unless otherwise mentioned.

Significant accounting estimates and judgments

The preparation of interim condensed financial statements in conformity with approved accounting standards require management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments which are significant to the interim condensed financial statements:

2. BASIS OF PREPARATION (Continued)

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the interim condensed financial statements have been prepared on a going concern basis.

Actuarial valuation of employee benefits liabilities

The cost of the end-of-service ("employee benefits") under defined unfunded benefit plan is determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and rate of employee turnover. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD

Effective 1 January 2018 the Company has adopted two new accounting standards, the impact of the adoption of these standards is explained below:

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Company in relation to its contracts with customers.

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

The Company has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity, however, the impact on Company's financial statements was not significant.

IFRS 9 – Financial Instruments

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

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD-(Continued)

Classification of financial assets and financial liabilities - (Continued)
For an explanation of how the Company classifies financial liabilities under IFRS 9, see respective section of significant accounting policies.

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

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

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

a) Financial assets and financial liabilities

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9
The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial assets				
Net investment in islamic financing	Amortised cost	Amortised cost	114,014,260	108,817,574
Cash and bank balances	Amortised cost	Amortised cost	18,194,751	18,194,751
Investments	Available for Sale	FVOCI	892,850	892,850
			133,101,861	127,905,175
Financial liabilities				
Accounts payable and other liabilities	Amortised cost	Amortised cost	3,645,324	3,645,324
			3,645,324	3,645,324

Impact on retained earnings and other reserves

	Retained earnings	Other reserves
Closing balance under IAS 39 (31 December 2017)	22,678,725	3,329,088
Impact of transition of IFRS 9	5,196,686	-
Opening balance under IFRS 9 (1 January 2018)	27,875,411	3,329,088

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD- (Continued)

The following table reconciles the provision recorded as per the requirements of IAS 39 to that of IFRS 9:

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

	31 December 2017 (IAS 39)	**Re-measurement**	**1 January 2018 (IFRS 9)**
Provision for impairment on net investment in islamic financing	17,766,884	(5,196,686)	12,570,198
Total	17,766,884	(5,196,686)	12,570,198

The following table provides carrying value of financial assets and financial liabilities in the interim statement of financial position.

30 September 2018

	Mandatorily at FVTPL	**Designated as at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity investments**	**Amortized cost**	**Total carrying amount**
Financial assets						
Net investment in islamic financing	-	-	-	-	**117,108,647**	**117,108,647**
Cash and Bank balances	-	-	-	-	**22,167,937**	**22,167,937**
Investments	-	-	-	**892,850**	-	**892,850**
Total financial assets	-	-	-	**892,850**	**139,276,584**	**140,169,434**

30 September 2018

	Mandatorily at FVTPL	**Designated as at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity investments**	**Amortized cost**	**Total carrying amount**
Financial Liabilities						
Accounts Payable and other liabilities	-	-	-	-	**5,642,755**	**5,642,755**
Total financial liabilities	-	-	-	-	**5,642,755**	**5,642,755**

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements as at 31 December 2017, except for the policies explained below:

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL. However, the Company as of the reporting date only holds financial asset carried at AC other than investment which is carried at FVOCI.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4.1 Classification of financial assets - (Continued)

4.1.1 Financial Asset at amortized cost

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

4.1.2 Financial Asset at FVOCI

On initial recognition, for an equity investment that is not held for trading. the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

4.1.3 Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

4.1.4 Assessments whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4.1.4 Assessments whether contractual cash flows are solely payments of principal and profit - (Continued)

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:
-Contingent events that would change the amount and timing of cash flows;
-Leverage features;
-Prepayment and extension terms;
-Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
-Features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

4.2 Classification of financial liabilities

The company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are integral part of the EIR.

4.3 Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.
On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.
In transactions in which the Company neither retains nor transfers substantially all of the risks and Rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.
In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

4.4 Impairment

The Company recognizes loss allowances for ECL on the net investment in islamic financing.
No impairment loss is recognized on equity investments.
The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Other financial instruments on which credit risk has not increased significantly since their initial recognition.
- 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Company categories' the loans in following 3 stages for the purpose of impairment:
Stage 1: Includes loans with no significant increase in credit risk since initial recognition, accordingly, impairment is recorded on the basis of 12-month expected credit losses and interest is calculated on gross basis;
Stage 2: Includes loans with significant increase in credit risk since initial recognition, therefore, impairment is recorded on life time expected credit losses and interest is calculated on gross basis; and
Stage 3: Includes loans which are credit impaired, therefore, impairment is recorded on life time expected credit losses and interest is calculated on net basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (Continued)

4.4 Impairment- (Continued)

4.4.1 Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive); and

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

4.5 Credit-impaired financial asset

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

Evidence that a financial asset is credit-impaired includes the following observable data:

• Significant financial difficulty of the borrower or issuer;
• Breach of contract such as a default or past due event;
• The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
• It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
• The disappearance of an active market for a security because of financial difficulties.

4.6 Presentation of allowance for ECL in the interim statement of financial position

Loss allowances for ECL, for financial assets measure at amortized cost, are presented in the interim statement of financial position as a deduction from the gross carrying amount of the assets.

4.7 Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross
carrying amount. Any subsequent recoveries are credited to credit loss expense.

5. NET INVESTMENT IN ISLAMIC FINANCING

Investment in financings contract comprised of investment in Tawarooq and Murabaha contracts as mentioned below:

	30 September 2018			
	Current Portion SR	Non-Current Portion SR	Provision SR	Total SR
Murabaha contracts receivables, net	**26,593,498**	**61,857,487**	**(6,264,107)**	**82,186,878**
Tawarooq and contracts receivables, net	**9,463,767**	**29,743,584**	**(4,285,582)**	**34,921,769**
	36,057,265	**91,601,071**	**(10,549,689)**	**117,108,647**

5. NET INVESTMENT IN ISLAMIC FINANCING - (Continued)

	31 December 2017			
	Current Portion SR	Non-Current Portion SR	Provision SR	Total SR
Murabaha contracts receivables, net	44,143,527	47,492,290	(10,462,500)	81,173,317
Tawarooq and contracts receivables, net	17,393,102	22,752,225	(7,304,384)	32,840,943
	61,536,629	70,244,515	(17,766,884)	114,014,260

Murabaha contracts receivables, net

	30 September 2018		
	Current Portion SR	**Non-Current Portion SR**	**Total SR**
Murabaha contracts receivables, gross	**34,064,425**	**79,044,510**	**113,108,935**
Less: deferred income	**(7,470,927)**	**(17,187,023)**	**(24,657,950)**
	26,593,498	**61,857,487**	**88,450,985**
Less: allowance for credit loss			**(6,264,107)**
Murabaha contracts receivables, net			**82,186,878**

	31 December 2017		
	Current Portion SR	Non-Current Portion SR	Total SR
Murabaha and contracts receivables, gross	57,287,747	62,768,429	120,056,176
Less: deferred income	(13,144,220)	(15,276,139)	(28,420,359)
	44,143,527	47,492,290	91,635,817
Less: allowance for credit loss			(10,462,500)
Murabaha and contracts receivables, net			81,173,317

Tawarooq and contracts receivables, net

	30 September 2018		
	Current Portion SR	**Non-Current Portion SR**	**Total SR**
Tawarooq and contracts receivables, gross	**13,347,708**	**42,243,818**	**55,591,526**
Less: deferred income	**(3,883,941)**	**(12,500,234)**	**(16,384,175)**
	9,463,767	**29,743,584**	**39,207,351**
Less: allowance for credit loss			**(4,285,582)**
Tawarooq and contracts receivables, net			**34,921,769**

	31 December 2017		
	Current Portion SR	Non-Current Portion SR	Total SR
Tawarooq and contracts receivables, gross	24,318,755	33,153,167	57,471,922
Less: deferred income	(6,925,653)	(10,400,942)	(17,326,595)
	17,393,102	22,752,225	40,145,327
Less: allowance for credit loss			(7,304,384)
Tawarooq and contracts receivables, net			32,840,943

5. NET INVESTMENT IN ISLAMIC FINANCING - Continued

5.1 Movement in allowance for credit losses during the period/ year is as follows:

	Note	**30 September 2018 SR (Un-audited)**	31 December 2017 SR (Audited)
Opening balance (under IAS 39)		**17,766,884**	17,766,884
Transition to IFRS 9 impact	3	**(5,196,686)**	-
Restated balance		**12,570,198**	17,766,884
Allowance for the period/ year		**461,774**	-
Reversal for the period/ year		**(2,482,283)**	-
		10,549,689	17,766,884

5.2 The Company's effective profit rate on financing contracts (exclusive of insurance) ranges between 11% to 15% (2017: 11% to 15%) per annum.

5.3 The Company in ordinary course of its business, holds collateral in respect of the financing contracts (being the title of assets leased out) in order to mitigate the credit risk associated with them. These collaterals are not readily convertible into cash and are intended to be repossessed and disposed of in case the customer defaults.

6. RELATED PARTY BALANCES AND TRANSACTIONS

Details of significant transactions with related parties during the period and related balances “which included in accounts payable and other liabilities” are as follows:

Name	**Relation**
Baghliaf A zahaie holding group	The holding company
Baz International Industry limited Company	Sister company

Related party	**Nature of transactions**	**30 September 2018 SR (Un-audited)**	30 September 2017 SR (Un-audited)
Baghliaf A zahaie holding group	Expense paid on behalf for the company	**(52,933)**	(2,100)
Baz International Industry limited Company	Purchase of goods	**(122,000)**	(3,004,300)

7. INVESTMENT- FAIR VALUE THROUGH OCI

	30 September 2018 SR (Un-audited)	31 December 2017 SR (Audited)
Beginning of the period/ year	**892,850**	-
Purchased during the period/ year	**--**	892,850
End of the period/ year	**892,850**	892,850

In accordance with the requirement of SAMA, the Company during 2017 had an investment, which represents Company’s ownership of 2% in a non-listed entity, which is still in the pre-operating stage.

8. SHARE CAPITAL

The Company has subscribed and paid up share capital of SR 100,000,000 (2017: SR 100,000,000) is divided into 10,000,000 share (2017: 10,000,000 share) equity shares of SR. 10 each fully subscribed and paid, and distributed among shareholders.

9. STATUTORY RESERVE

In accordance with Company's by law, the Company established a statutory reserve by appropriation of 10% of net income until the reserve equaled 30 % of the share capital. This statutory reserve is not available for dividend distribution.

10. CONTINGENCIES AND COMMITMENTS

The Company had no contingencies and commitments other than the premises rent. Premises rent under operating lease arrangements represent rentals payable by the Company for certain office properties. Leases are negotiated for an average term of one year and rentals are fixed for the same period.

11. EARNINGS PER SHARE - basic

Basic earnings per share from net income for the period is calculated by dividing net income for the period by the number of shares for the period amounting to 10,000,000 shares (2017: 10,000,000 shares). There were no dilution effects during the period.

12 FINANCIAL RISK MANAGEMENT

12.1 Amounts arising from ECL – Significant increase in credit risk

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

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

12.1.1 Generating the term structure of PD

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include GDP growth, benchmark profit rates and inflation rates.

12.1.2 Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.
The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modeling.
Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.
As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 90 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

12. FINANCIAL RISK MANAGEMENT (Continued)

12.1.3 Modified Financial Assets

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

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

The Company renegotiates finance lease receivables to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Company's policy, Finance lease receivables forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of leasing and instalments covenants. Both consumer and corporate portfolios are subject to the forbearance policy.

12.1.4 Definition of 'Default'

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- In assessing whether a borrower is in default. The Company considers indicators that are:
- Qualitative- e.g. breaches of covenant;
- Quantitative- e.g. overdue status and "30 days" non-payment on another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.
- Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

12.1.5 Incorporation of forward looking information

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 March 2018 included the following ranges of key indicators.
GDP growth
Inflation rates

12.1.6 Measurement of ECL

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

i. probability of default (PD);
ii. loss given default (LGD);
iii. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

12. FINANCIAL RISK MANAGEMENT (Continued)

12.1.6 Measurement of ECL (continued)

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

13. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's interim condensed financial statements are disclosed below. The Company intends to adopt these standards and interpretations, if applicable, when they become effective.

13.1 IFRS 16 LEASES

IFRS 16 is issued in January 2017 that requires lessees to account for all leases (subject to certain exemptions) under a single on balance sheet model (i.e., in a manner comparable to finance leases under IAS 17). Lessees would recognize a liability to pay rentals with a corresponding asset, and would separately recognize interest expense and amortization. The standard includes two recognition and measurement exemptions for lessees:

- leases of low-value assets (e.g. small printer;) and
- short-term leases (i.e. leases with a lease term of 12 months or less).

The new standard also requires reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee upon certain events. Lessor accounting would be essentially the same as today's lessor accounting, using IAS 17's dual classification approach. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

14. ZAKAT

14.1 Zakat provision movement

	30 September 2018 SR (Un-audited)	31 December 2017 SR (Audited)
Beginning of the period/ year	3,703,249	3,520,668
Charged during the period/ year	2,760,954	3,703,249
Paid during the period/ year	**(3,703,249)**	(3,520,668)
End of the period/ year	2,760,954	**3,703,249**

14.2 Zakat status

The Company submitted its zakat declarations to the General Authority of Zakat and Tax for the years from 2005 to 2017. The Company has obtained a Zakat certificate valid to 30 April 2019.

The Company received final zakat assessment for the years up to 2012. The Company did not receive any zakat assessment for the years from 2013 to 2017.

15. DIVIDENDS DISTRIBUTION

During nine months period ended September 30, 2018 the Company received no objection letter from SAMA regarding the distribution of dividends to shareholders amounting to SR 7 Million for the year ended 2017G. Based on that letter, the shareholders approved to distribute dividends to shareholders amounting to SR 7 Million of which SR 3.5 Million was paid during the period and the remaining balance set accounts payable and other liabilities.

16. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to current period presentation.

17. DATE OF AUTHORISATION FOR ISSUE

These interim condensed financial statements were authorized for issue on 19 Safar 1440H (corresponding to 28 October 2018G) by the Board of Directors of the Company.