UNITED COMPANY FOR FINANCIAL SERVICES
(A SAUDI CLOSED JOINT STOCK COMPANY)

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE PERIOD FROM JANUARY 21, 2019
(DATE OF INCORPORATION) TO DECEMBER 31, 2019

UNITED COMPANY FOR FINANCIAL SERVICES
(A SAUDI CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT
FOR THE PERIOD FROM JANUARY 21, 2019 (DATE OF INCORPORATION) TO DECEMBER 31, 2019

INDEPENDENT AUDITOR'S REPORT

The Shareholder
United Company for Financial Services
(A Saudi Closed Joint Stock Company)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of United Company for Financial Services (A Saudi Closed Joint Stock Company) (the "Company") which comprise the statement of financial position as at December 31, 2019, the statement of profit or loss and other comprehensive income, statement of changes in shareholder's equity and statement of cash flows the period then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

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 are independent of the Company in accordance with the professional code of conduct and ethics, endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance i.e. Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S AUDIT REPORT - *Continued*

Auditor's Responsibilities for the Audit of the Financial Statements- *Continued*

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exist 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 disclosure in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

For Al-Bassam & Co.
P.O. Box 4636
Al Khobar 31952
Kingdom of Saudi Arabia

البسام وشركاؤه
محاسبون قانونيون
رقم الترخيص ٥٢٠/١١/٣٢٣
C.R.1010385804
License 520/11/323
Al-Bassam & Co.
Certified Public Accountants

Ahmed Abdul Majeed Mohandis
Certified Public Accountant
License No. 477
7 Rajab 1441H
March 2, 2020

UNITED COMPANY FOR FINANCIAL SERVICES
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

	Note	December 31, 2019 SR
ASSETS		
Cash and cash equivalents	5	**19,888,725**
Investment in Islamic financing contracts, net	6	**143,899,072**
Prepayment and other receivables	7	**2,091,418**
Property and equipment, net	9	**2,182,434**
Intangible assets, net	10	**8,873,806**
TOTAL ASSETS		**176,935,455**
SHAREHOLDER'S EQUITY AND LIABILITIES		
SHAREHOLDER'S EQUITY		
Share capital	13	**150,000,000**
Actuarial reserve	14	**(184,305)**
Accumulated loss		**(18,792,820)**
TOTAL SHAREHOLDER'S EQUITY		**131,022,875**
LIABILITIES		
Accounts payable and other liabilities	11	**44,433,830**
End of service indemnities	14	**1,478,750**
TOTAL LIABILITIES		**45,912,580**
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		**176,935,455**
Contingencies and commitments	15	

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

UNITED COMPANY FOR FINANCIAL SERVICES
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD FROM JANUARY 21, 2019 (DATE OF INCORPORATION) TO DECEMBER 31, 2019

	Note	For the period from January 21,2019 to December 31, 2019 SR
INCOME FROM ISLAMIC FINANCING ACTIVITIES, NET	16	**15,580,894**
OPERATING (EXPENSES) / INCOME		
General and administrative expenses	17	**(17,476,040)**
Selling and marketing expenses	18	**(15,151,261)**
Allowance for credit loss	6	**(2,644,253)**
Other income	19	**1,186,365**
NET LOSS BEFORE ZAKAT		**(18,504,295)**
Zakat	12	**(288,525)**
NET LOSS FOR THE PERIOD		**(18,792,820)**
OTHER COMPREHENSIVE LOSS		
Items that will not be reclassified to profit or loss		
Actuarial loss on end of service indemnities	14	**(184,305)**
Other comprehensive loss for the period		**(184,305)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(18,977,125)**
Loss per share		
Basic loss per share	20	**(1.25)**
Diluted loss per share	20	**(1.25)**

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

UNITED COMPANY FOR FINANCIAL SERVICES
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE PERIOD FROM JANUARY 21, 2019 (DATE OF INCORPORATION) TO DECEMBER 31, 2019

	Share capital SR	Accumulated loss SR	Actuarial reserve SR	Total Shareholder's equity SR
Capital issued	**150,000,000**	**-**	**-**	**150,000,000**
Net loss for the period	**-**	**(18,792,820)**	**-**	**(18,792,820)**
Other comprehensive loss for the period	**-**	**-**	**(184,305)**	**(184,305)**
Balance as at December 31, 2019	**150,000,000**	**(18,792,820)**	**(184,305)**	**131,022,875**

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

UNITED COMPANY FOR FINANCIAL SERVICES
(A SAUDI CLOSED JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JANUARY 21, 2019 (DATE OF INCORPORATION) TO DECEMBER 31, 2019

	For the period from January 21, 2019 to December 31, 2019 SR
CASH FLOW FROM OPERATING ACTIVITIES	
Net loss before zakat	**(18,504,295)**
Adjustments for:	
Depreciation and amortization	**803,722**
Allowance for credit loss	**2,644,253**
End of service indemnities	**404,766**
Changes in operating assets and liabilities:	
Investment in Islamic financing contracts, net	**(146,543,325)**
Prepayment and other assets	**(2,091,418)**
Accounts payable and other liabilities	**45,050,438**
Cash used in operating activities	**(118,235,859)**
End of service indemnities paid	**(15,454)**
Net cash used in operating activities	**(118,251,313)**
CASH FLOW FROM INVESTING ACTIVITIES	
Addition to property and equipment	**(2,342,525)**
Addition to intangible assets	**(9,517,437)**
Net cash used in investing activities	**(11,859,962)**
CASH FLOW FROM FINANCING ACTIVITY	
Proceeds from issue of share capital	**150,000,000**
Net cash generated from financing activity	**150,000,000**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**19,888,725**
Cash and cash equivalents at the beginning of the period	**-**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**19,888,725**

Significant non-cash transactions (Note 5.1)

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

1. LEGAL STATUS AND OPERATIONS

United Company for Financials Services ("the Company") is a Saudi Closed Joint Stock Company established under the Regulations for Companies in the Kingdom of Saudi Arabia having the Commercial Registration No. 2051224103 issued in Al-Khobar on Jumada Al Awwal 15,1440 H (corresponding to January 21, 2019).

The principal activity of the Company is consumer financing under the license number 20/905/Ash/52 dated Shaban 26, 1440 H (corresponding to May 1, 2019) granted by Saudi Arabia Monetary Authority (SAMA).

The Company's Head Office is located in Al-Khobar, Kingdom of Saudi Arabia.

As per the Company Bye-Laws, the first fiscal period of the Company is to commence from the date of Commercial Registration to December 31, 2019. Accordingly, these are the first financial statements for the period ended December 31,2019 and there are no comparative figures to be presented in these financial statements.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Assets and liabilities in the statement of financial position are presented in order of liquidity.

Basis of measurement

These financial statements have been prepared under the historical cost convention except for end of service indemnities which are recognised at present value of future liabilities using the projected unit credit method.

Functional and presentational currency

These 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 Saudi Riyal, unless otherwise mentioned.

Significant accounting estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA") which 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 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 financial statements:

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 financial statements have been prepared on a going concern basis.

2. BASIS OF PREPARATION (Continued)

Significant accounting estimates and judgments (Continued)

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.

Useful life of property and equipment and intangible assets
The Company periodically reviews estimated useful lives and the depreciation / amortization method to ensure that the method and period of depreciation / amortization are consistent with the expected pattern of economic benefits from these assets.

Measurement of expected credit loss allowance
The measurement of expected credit loss allowance for the financial assets measured at amortized cost is the area that requires the use of models and significant assumptions about future economic conditions and credit behavior (such as the likelihood of customer defaulting and resulting losses). Explanation of inputs, assumptions, and estimation techniques used in measuring expected credit loss (ECL) is further detailed in notes, which also sets out the key sensitivities of the ECL to change these elements.
A number of significant judgements are also required in applying accounting requirements for measuring the ECL, such as:
- Determining the criteria for a significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL
- Establishing the number and relative weighting of forward-looking scenarios for each type of industrial sector and associated ECL
- Establishing a group of similar financial assets for the purpose of measuring ECL.

Business model assessment
Classification and measurement of financial assets depend on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks, and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relates to the Company's core operations.

Impairment of net investment in Islamic financing
The Expected Credit Loss ("ECL") model contains a three-stage approach that is based on the change in the credit quality of financial assets since initial recognition. The ECL model is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months and Loss Given Default (LGD) and profit is calculated on a gross basis;

2. BASIS OF PREPARATION (Continued)

Significant accounting estimates and judgments (Continued)

Impairment of net investment in Islamic financing (Continued)

Stage 2: Under Stage 2, where there has been a SICR since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded which is computed using lifetime PD, LGD and Exposure at Default (EAD) and profit is calculated on a gross basis. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1;

Stage 3: Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit-impaired and an amount equal to the lifetime ECL will be recorded for the financial assets and profit is calculated on a net basis.

3. New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, issued but not yet effective: -

There are a number of amendments to standards which are effective from January 1, 2020, however, management anticipates that these amendments will not have any material impact on adoption in the Company's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Financial Instruments:

4.1.1 Financial Assets:

4.1.1.1 Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost ("AC"), fair value through other comprehensive income (FVOCI) or fair value through profit or loss ("FVTPL"). However, the Company as of the reporting date only holds financial asset carried at AC which includes Tawaruq and Murabaha contract receivables.

Tawaruq contract receivables

Tawaruq is an agreement whereby the Company sells to a customer an asset, which the Company has purchased and subsequently to such sale, arranges to sell the underlying asset and pay out the sale proceeds to the customer. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the Tawaruq sale contracts include the total sale payments on the Tawaruq agreement (Tawaruq sale contract receivable). The difference between the Tawaruq sale contracts receivable and the cost of the sold asset, is recorded as unearned Tawaruq profit and for presentation purposes, is deducted from the gross amounts due under the Tawaruq sale contracts receivable.

Murabaha contract receivables

Murabaha is an agreement whereby the Company sells to a customer 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. Gross amounts due under the Murabaha sale contracts include the total of future sale payments on the Murabaha agreement (Murabaha sale contract receivable). The difference between the Murabaha sale contracts receivable and the cost of the sold asset, is recorded as unearned Murabaha profit and for presentation purposes, is deducted from the gross amounts due under the Murabaha sale contracts receivable.

Subsequent measurement

After initial recognition financial assets can be measured at Amortized cost, Fair value through other comprehensive income ("FVOCI") or Fair value through profit and loss ("FVTPL").

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Financial Instruments (Continued)

4.1.1 Financial Assets (Continued)

4.1.1.1 .A 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.

4.1.1.1.B Financial Assets at FVOCI

Debt Instruments

A debt instrument is measured at FVOCI only if it meets both of the following conditions and it is not designated as at FVTPL

- The Asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- The Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and the interest on the principal amount outstanding.

Equity Instruments

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

4.1. 1.1.C Financial Asset at FVTPL

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Financial Instruments (Continued)

4.1.2 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 realized 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.

4.1.3 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.

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 the 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Financial Instruments (Continued)

4.1.4 De-recognition of 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.

In case the Company securitizes various pools of financing contracts, which generally result in the sale of these assets to banks and in the Company transferring substantially all of the risks and rewards of ownership, and the bank in turn issue facilities to the Company, accordingly Interests in the securitized financial assets are generally retained in the form of senior or subordinated tranches, profit-only strips or other residual interests (retained interests). Retained interests are recognized as profit-only strips receivables and carried at AC, subject to the business model and SPPI test. Gains or losses on securitization are recorded in income from financing.

4.1.5 Modification

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, The Company recalculates the gross carrying amount of the financial asset and recognize a modification gain or loss in the statement of profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

4.1.6 Reclassifications

Financial assets are reclassified when the Company changes its business model for managing financial assets. For example, when there is a change in management's intention to hold the asset for a short term or long term. Financial liabilities are not reclassified.

4.1.7 Impairment

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its Murabaha and Tawaruq contracts receivables carried at amortized cost.

The Company assesses impairment "based on three stages model" categorization as follows:

- **Stage 1 - Performing**

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

- **Stage 2 – Under performing**

Stage 2 includes Murabaha and Tawaruq contracts receivables that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these asset, lifetime ECL are recognized, but finance profit is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of net investment in Islamic financing contracts. Expected credit losses are the weighted average credit losses with the PD as the weight.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Financial Instruments (Continued)**:**

4.1.7 Impairment (Continued):

- **Stage 3 – Non performing**

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized and finance profit is calculated on the net carrying amount (that is, net of credit allowance).

Significant increase in credit risk (SICR):
IFRS9 requires management, when determining whether the credit risk on a financial instrument has increased significantly, to consider reasonable and supportable information available in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial statement.

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or a Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are calculated by cumulative effect of Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- “Default”, The Company considers a financial asset to be in default when: (i) the borrower is unlikely to pay its credit obligations to the Company in full, without recourse; or (ii) the borrower is past due more than 90 days on any material credit obligation to the Company.

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

- Loss Given Default (LGD) represents the Company’s expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL allowance is affected by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in Probability of Default PDs, Exposure at Default (EADs) and Loss Given Default (LGDs) in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Financial Instruments (Continued)

4.1.7 Impairment (Continued):

Significant increase in credit risk (SICR)

The Company has identified and documented key drivers of credit risk and credit losses and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used included the following key indicators.

- GDP growth
- Inflation rate

Write off
The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

For other financial assets, which are considered as low risk by Company with an average credit period of 30 days, the Company uses the simplified approach whereby the expected credit losses are based on the credit loss expected over the lives of these assets. The Company has prepared a provision matrix based on its experience adjusted to receivables future outlook and the respective economic conditions.

The measurement of the expected credit loss allowance for Murabaha and Tawaruq contracts receivable measured at amortized cost, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:
- Determining criteria for the significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

4.1.8 Financial liabilities

4.1.8.1 Classification of financial liabilities
The Company designates a financial liability at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistency or where a group of financial liabilities is managed and its performance is evaluated on a fair value basis.

These amounts represent liabilities for goods and services provided to the Company prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 12 months of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

4.1.8.2 Initial measurement
At initial recognition, the Company recognizes the financial liability at its fair value.

4.1.8.3 Subsequent measurement
After initial recognition, financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

4.1.8.4 De-recognition of financial liabilities
Financial liabilities are derecognized when the obligations specified in the contract is discharged, cancelled or expires. A substantial change in the terms of a debt instrument is considered as an extinguishment of the original liability and the recognition of a new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Financial Instruments (Continued)

4.1.8.5 Modification
For financial liabilities, if an exchange or change in the terms of a debt instrument does not qualify for de-recognition it is accounted for as a modification of the financial liability. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

4.1.8.6 Offsetting financial assets and liabilities
Financial assets and liabilities are offset so that the net amount reported in the statement of financial position where the Company currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

4.1.9 Effective interest method
The effective interest method is a method of calculating the amortized cost of financial asset and liability and of allocating interest income and expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

4.2 Property and equipment
Property and equipment are stated at their cost less accumulated depreciation and accumulated impairment losses.

Property and equipment are depreciated over its useful lives using the straight-line method.

The estimated useful lives of assets are as follows:

Item	Estimated useful lives/Years
Furniture and fixtures	5 years
Office equipment’s	5 years
Computers	5 years
Leasehold improvements	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in statement of profit or loss.

Capital work in progress represents the accumulated costs incurred by the Company in relation to the construction of its building and structures in the development stage. Cost incurred are initially charged to the capital work in progress then these costs are transferred to property and equipment when the construction of these facilities are completed. Finance costs on borrowings attributable to the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

4.3 Intangible assets

Costs associated with maintaining software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Intangible assets (continued)

Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

Intangible assets having definite lives are stated at cost less accumulated amortization and accumulated impairment losses if any. Amortization is charged applying the straight-line method over the useful lives of 5 to 10 years. Amortization is charged from the month in which the asset is available for use. The residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

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

4.4 Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in statement of profit or loss.

4.5 Foreign currency transactions

Foreign currency transactions are translated into Saudi Riyals at exchange rates prevailing at the date of transaction and the resulting gain / loss recognized in the statement of profit or loss. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange which approximate those prevailing on the statement of financial position date. Gains and losses on translation are taken to statement of profit or loss currently except for difference arising on translation of equity-accounted associates which are recognized directly in equity through other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

4.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand, if any, and at banks including investments with original maturity of less than three months from the contract date, if any.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

4.8 Statutory reserves

In accordance with Company's By-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to recognize a reserve comprising 10% of its Net Income for the year. As per its By-laws, the Company will cease the contribution when such reserve will reach 30% of its Share Capital.

4.9 End of service indemnities

4.9.1 End of services indemnities

The end-of-service indemnity provision is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Re-measurements, comprising actuarial gains and losses, are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Re-measurements recognized in other comprehensive income are reflected immediately in retained earnings and will not be reclassified to statement of profit or loss in subsequent periods. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in the statement of profit or loss as past service costs. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

• service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
• interest expense; and
• re-measurement

The Company presents end of service indemnity charges for the period in the statement of profit or loss and other comprehensive income under 'General and Administration expenses' and 'Selling and Marketing expenses'.

Liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

4.9.2 Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave, sick leave and bonus in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Company in respect of services provided by employees up to the reporting date.

4.10 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 economic resources will be required to settle the obligation in the future; and
- The amount can be reliably estimated.

If the effect of the time value of money is material, provisions are discounted using a current rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where there are a number of similar obligations, (e.g. similar contracts or other provisions) the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Revenue recognition

4.11.1 Income from financing contracts

Income from financing contracts is recognized in the statement of profit or loss 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 EPR includes transaction costs and fees and commission income received that represent an integral part of the EPR. Transaction costs include incremental costs that are directly attributable to the acquisition of the financial assets

Origination fees charged in respect of processing and other services are recognized as income over the period of the financing agreements.

4.12 Selling and marketing expenses

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

4.13 Earnings per share

The Company presents basic earnings per share data for its profit. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. For the diluted earnings per share, it is calculated by adjusting the weighted average number of ordinary shares in issue assuming the conversion of all dilutive potential ordinary shares.

4.14 Lease (as a lessee)

The Company recognize new assets and liabilities for its operating leases. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of profit or loss and other comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

Low-value assets comprise small items and low values assets.

4.15 Zakat

The Company is subject to the regulations of the General Authority of Zakat & Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat is calculated on accrual basis.

On 14 March 2019, General Authority of Zakat and Tax ("GAZT") has published rules for computation of Zakat for Companies engaged in financing activities ("Rules") and licensed by SAMA. The Rules are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods from January 1, 2019. In addition to providing a new basis for calculating the Zakat base, the Rules have also introduced a minimum floor at 4 times the net income and maximum cap at 8 times the net income when determining the Zakat base. Zakat liability for the Saudi shareholders will continue to be calculated at 2.5% of Zakat base but it will not fall below the minimum floor nor would exceed the maximum cap as prescribed by the rules.

5. CASH AND CASH EQUIVALENTS

	December 31, 2019 SR
Cash in hand	5,000
Cash at bank	19,883,725
	19,888,725

5.1 Significant non-cash transactions

	December 31, 2019 SR
End of service indemnities transferred from a related party (Note 8)	905,133

6. INVESTMENT IN ISLAMIC FINANCING CONTRACTS, NET

Investment in financings contract represents financial assets carried at amortized cost comprising of investment in Tawaruq and Murabaha contracts as mentioned below:

	December 31, 2019			
	Current portion SR	Non-current portion SR	Allowance for credit loss SR	Total SR
Tawaruq contracts receivables, net	18,698,043	91,351,938	(1,312,502)	108,737,479
Murabaha contracts receivables, net	24,975,146	11,518,198	(1,331,751)	35,161,593
	43,673,189	102,870,136	(2,644,253)	143,899,072

Tawaruq contracts receivables, net

	December 31, 2019		
	Current portion SR	Non-current portion SR	Total SR
Tawaruq contracts receivables, gross	44,698,384	137,984,759	182,683,143
Less: Deferred Islamic financing income	(25,822,944)	(46,314,651)	(72,137,595)
	18,875,440	91,670,108	110,545,548
Unearned origination fees	(331,802)	(595,105)	(926,907)
Deferred transaction costs	154,405	276,935	431,340
	18,698,043	91,351,938	110,049,981
Less: Allowance for credit loss	(321,133)	(991,369)	(1,312,502)
Tawaruq contracts receivables, net	18,376,910	90,360,569	108,737,479

6. INVESTMENT IN ISLAMIC FINANCING CONTRACTS, NET (Continued)

Murabaha contracts receivables, net

	December 31, 2019		
	Current portion SR	Non-current portion SR	Total SR
Murabaha contracts receivables, gross	33,922,658	13,947,289	47,869,947
Less: Deferred Islamic financing income	(8,765,830)	(2,432,485)	(11,198,315)
	25,156,828	11,514,804	36,671,632
Unearned origination fees	(208,777)	(3,530)	(212,307)
Deferred transaction costs	27,095	6,924	34,019
	24,975,146	11,518,198	36,493,344
Less: Allowance for credit loss	(939,345)	(392,406)	(1,331,751)
Murabaha contracts receivables, net	24,035,801	11,125,792	35,161,593

6.1 Analysis of quality of investment in Islamic financing is as follows:

	December 31, 2019 SR
Performing - Neither past due nor impaired	142,607,547
Under Performing - Past due but not impaired	2,613,890
Non performing - Past due and impaired	1,995,743
	147,217,180

In accordance with the applicable accounting standards and Company's accounting policies, the investment in Islamic financing are classified as either not yet due or otherwise past due but for 90 days or less as "performing" while all receivables that are past due for more than 90 days are classified as "non-performing". Below is the breakdown of performing and non-performing Islamic financing:

	December 31, 2019 SR
Performing	145,221,437
Non-performing - past due and impaired	1,995,743
	147,217,180

6.2 The maturity of the gross investment in Islamic financing referred as "GIIF" and present value of gross investment in Islamic financing referred as "PV of GIIF" is as follows:

	December 31, 2019 SR	
	GIIF	PV of GIIF
Not later than one year	78,621,042	44,032,268
Later than one year but not later than five years	151,932,048	103,184,912
	230,553,090	147,217,180

6. INVESTMENT IN ISLAMIC FINANCING CONTRACTS, NET (Continued)

6.3 As at December 31, 2019, stage-wise investment in Islamic financing contract receivable balances and the respective expected credit loss (ECL) are as follows:

	Stage 1	Stage 2	Stage 3	Total
Investment in finance receivable	**142,607,547**	**2,613,890**	**1,995,743**	**147,217,180**
Less: Allowance for expected credit loss	**(1,350,703)**	**(384,654)**	**(908,896)**	**(2,644,253)**
	141,256,844	**2,229,236**	**1,086,847**	**144,572,927**

6.4 Movement in allowance for expected credit losses during the period is as follows:

	December 31, 2019 SR
Balance as at January 21, 2019	**-**
Charge for the period	**2,644,253**
Balance as at December 31, 2019	**2,644,253**

7. PREPAYMENT AND OTHER RECEIVABLES

	December 31, 2019 SR
Prepaid expenses	**959,206**
Employees receivable (Note 8)	**1,125,939**
Other receivables	**6,273**
	2,091,418

8. RELATED PARTY BALANCES AND TRANSACTIONS

In the normal course of business, the Company purchases products from Parent Company to be financed to consumers under Murahaba contracts. Details of significant transactions with related parties during the period and related balances are as follows:

Name	Relation
United Electronics Company	Parent
Procco Financial Services W.L.L	Affiliate

Significant Transactions:

Related party	Nature of transactions	For the period from January 21, to December 31, 2019 SR
United Electronics Comapny	Purchase from Parent Company to be financed to consumers under Murabaha contracts	**(48,244,386)**
	Rent paid*	**(1,246,040)**
	IT services charges*	**(1,163,324**
	Collection made on behalf of the Company	**22,355,281**
	End of service indemnity liabilities transferred from a related party	**905,133**

**General and administrative expenses include rent and IT services charges paid to a related party*

Balance due to a related party is as follows:

	December 31, 2019 SR
United Electronics Company	**33,440,987**

Key management compensation

	December 31, 2019 SR
Short term benefits	**8,814,297**
Long term benefits	**356,197**
	9,170,494

Employee receivables under Note 7 includes advances to Key Management Personnel with the balance amounting to SR 0.6 million.

Board of Directors compensation

	December 31, 2019 SR
Remuneration for attending meetings	**1,680,000**
	1,680,000

9. PROPERTY AND EQUIPMENT, NET

2019	Furniture and fixtures SR	Office equipment SR	Computers SR	Leased hold improvements SR	Capital Work in progress SR	Total SR
Cost						
Additions during the period	**971,303**	**53,447**	**943,190**	**45,169**	**329,416**	**2,342,525**
As at December 31,2019	**971,303**	**53,447**	**943,190**	**45,169**	**329,416**	**2,342,525**
Accumulated Depreciation						
Charge for the period	**(39,596)**	**(3,563)**	**(109,627)**	**(7,305)**	**-**	**(160,091)**
As at December 31, 2019	**(39,596)**	**(3,563)**	**(109,627)**	**(7,305)**	**-**	**(160,091)**
Net Book Value						
As at December 31, 2019	**931,707**	**49,884**	**833,563**	**37,864**	**329,416**	**2,182,434**

10. INTANGIBLE ASSETS, NET

2019	Computer Software SR	Total SR
Cost		
As at January 21, 2019	**-**	**-**
Additions during the period	**9,517,437**	**9,517,437**
As at December 31,2019	**9,517,437**	**9,517,437**
Accumulated Amortization		
As at January 21, 2019	**-**	**-**
Charge for the period	**(643,631)**	**(643,631)**
As at December 31, 2019	**(643,631)**	**(643,631)**
Net Book Value		
As at December 31, 2019	**8,873,806**	**8,873,806**

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	December 31, 2019 SR
Due to a related party (Note 8)	**33,440,987**
Accrued and other liabilities	**6,871,737**
Accrued performance bonus	**2,119,375**
Accrued board remuneration (Note 8)	**1,680,000**
VAT payable	**33,206**
Zakat provision (Note 12)	**288,525**
	44,433,830

12. ZAKAT PROVISION

12.1 The movement in zakat provision for the period is as follows:

	December 31, 2019 SR
Provided during for the period	**288,525**
Balance at the end of the period	**288,525**

12.2 Zakat has been computed based on the Company's understanding and interpretation of the zakat and income tax regulations enforced in the Kingdom of Saudi Arabia.

13. SHARE CAPITAL

The Company’s subscribed and paid-up share capital of SR 150,000,000 is divided into 15,000,000 equity shares of SR 10 each fully subscribed and paid by a shareholder.

As of December 31, 2019, the Company’s shareholder and its respective shareholding are as follows:

Shareholders	**Amount SR**	**Ownership %**
United Electronics Company (“Parent Company”)	**150,000,000**	**100%**
	150,000,000	**100%**

14. END OF SERVICE INDEMNITIES

	December 31, 2019 SR
Present value of end of service indemnities	1,478,750

The major financial assumptions used to calculate the employees' end of service indemnities liabilities are as follows:

Principal actuarial assumptions	December 31, 2019 SR
Discount rate	4.77%
General salary increase	3%
Mortality rates	WHO SA 16- 75%
Rate of employee turnover	Heavy

The movements in end of service indemnities liabilities recognized in the statement of financial position are as follows:

	December 31, 2019 SR
Net liability at the beginning of the period	-
Current service cost	372,558
Interest cost	32,208
Indemnity transferred during the period	905,133
Benefits paid during the period	(15,454)
Actuarial loss recognized during the period	184,305
Net liability at the end of the period	1,478,750

The amounts recognised in the statement of profit or loss in respect of employees' end of service indemnities are as follows:

	December 31, 2019 SR
Current service cost	372,558
Interest cost	32,208
	404,766

The sensitivity of the employees' end of service indemnities to changes in the weighted principal assumptions is:

	December 31, 2019	
Change in assumptions	Change in present value of employees post-employment benefit liability	
Discount rate	Percentage	Amount
- Increase	+0.5%	1,422,951
- Decrease	-0.5%	1,538,263
Salary growth rate		
- Increase	0.5%	1,539,015
- Decrease	-0.5%	1,421,758

15. CONTINGENCIES AND COMMITMENTS

The Company has no contingencies and commitments as at period end.

16. INCOME FROM ISLAMIC FINANCING ACTIVITIES, NET

	For the period from January 21, to December 31, 2019 SR
Income from Islamic financing activities	
Tawaruq contracts income	**6,551,724**
Murabaha contracts income	**8,764,114**
Origination fee net of related expenses	**265,056**
Total income from financing contracts	**15,580,894**

17. GENERAL AND ADMINISTRATIVE EXPENSES

	For the period from January 21, to December 31, 2019 SR
Salaries, wages and other benefits	**12,418,181**
Legal and professional fees	**1,995,344**
Amortization	**643,632**
Rent	**608,374**
Repair and Maintenance	**569,850**
Bank charges	**369,995**
Utilities, printing and stationary	**261,398**
Travelling expenses	**123,770**
Depreciation	**88,605**
Governmental fees	**79,926**
Others	**316,965**
	17,476,040

18. SELLING AND MARKETTING EXPENSES

	For the period from January 21, to December 31, 2019 SR
Salaries, wages and other benefits	10,913,819
Advertising expenses	2,463,827
SIMAH and GOSI verification expenses	871,144
Rent	611,832
Utilities, printing and stationary	89,049
Depreciation	71,486
Travel and transportation	44,387
Others	85,717
	15,151,261

19. OTHER INCOME

	For the period from January 21, to December 31, 2019 SR
Time deposit income	809,363
Other income	377,002
	1,186,365

During the period ended December 31, 2019, time deposits are placed with local banks denominated in Saudi Riyals with original maturities of less than three months from the date of placement and earned commission income at an average rate of 2.26% to 2.47% per annum.

20. LOSS PER SHARE

	For the period from January 21, to December 31, 2019 SR
Loss for the period attributable to the shareholder of the Company	(18,792,820)
Weighted average number of ordinary shares for the purposes of basic earnings	15,000,000
Weighted average number of ordinary shares for the purposes of diluted earnings	15,000,000
Loss per share	
Basic loss per share	(1.25)
Diluted loss per share	(1.25)

21. RISK MANAGEMENT

Risk is inherent in the Company's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability. The Company's activities are exposed to a variety of financial risks, which mainly include market risk, credit risk and liquidity risk.

21. RISK MANAGEMENT (Continued)

21.1 Risk management structure

Board of Directors

The Board of Directors are responsible for establishing the Company's policies, including risk management framework, and to review the performance of the Company to ensure compliance with these policies.

Credit and risk management committee

The credit and risk management committee is appointed by the Board of Directors. The credit and risk management committee assists the Board in reviewing overall risks, which the Company might face, evaluate and review operational and non-operational risks and decide on mitigating factors related therewith.

Audit committee

The audit committee is appointed by the Board of Directors. The audit committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof and the soundness of the internal controls of the Company.

Internal audit

All key operational, financial and risk management processes are audited by the Internal Audit. Internal audit examines the adequacy of the relevant policies and procedures. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

21.2 Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

Market risk comprises of three types of risk: currency risk, profit rate risk and other price risk.

21.2.1 Currency risk

The Company did not undertake significant transactions in currencies other than Saudi Riyals during the period. Accordingly, the Company is not exposed to any significant currency risk.

21.2.2 Profit rate risk

Profit rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market profit rates. The Company has no exposure to the risk of changes in market profit rates as the Company does not have long-term debt obligations with floating profit rates.

There were no financial liabilities to profit rate risk as at December 31, 2019.

21.2.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market. The Company does not have any financial instruments, which are subject to other price risk.

21. RISK MANAGEMENT (Continued)

21.3 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The risk is generally limited to principal amounts and accrued profit thereon if any. The Company has established procedures to manage credit exposure including credit approvals, credit limits.

All investing transactions are settled/paid for upon delivery. The Company's policy is to enter into a financial instrument contract by following internal guidelines such as approving counterparties and approving credits.

The Company also manages risk through a credit department that evaluates customers' creditworthiness and obtains adequate securities where applicable. Out of the total assets of SR 176.44 million, the assets which were subject to credit risk amounted to SR 164.42 million. The management analyze the credit risk in the following assets:

	December 31, 2019 SR
Investment in Islamic financing contracts, net	**143,899,072**
Bank Balances	**19,883,725**
Employee receivables	**1,125,939**
	164,908,736

21.3.1 Net investment in Islamic financing contracts

The investment in financing contracts generally expose to significant credit risk. Therefore, the Company has established a number of procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral and personal guarantees.

The Company also follows a credit classification mechanism, primarily driven by day's delinquency as a tool to manage the quality of credit risk of the financing contracts portfolio.

The ageing of net investment in financing contracts, based on due balances according to past due installments of the customers is as under:

	December 31, 2019 SR
Not past due	**135,823,672**
Past due 1-30 days	**6,783,875**
Past due 31-90 days	**2,613,890**
Past due 91-180 days	**1,963,743**
Over 181 days	**32,000**
	147,217,180
Unearned originations fees	**(1,139,214)**
Deferred transaction costs	**465,359**
	146,543,325
Less: Impairment for financing contracts	**(2,644,253)**
Net of Impairment	**143,899,072**
Portfolio coverage ratio	**1.8%**
NPLs coverage ratio	**132%**

The installment that is not past due are related to customers whose history of repayment has been considered in the calculation of impairment for their financing contracts.

21. RISK MANAGEMENT (Continued)

21.3 Credit Risk (Continued)

21.3.2 Credit quality analysis

The Company monitors the credit quality of the Islamic financing receivables through diversification of activities to avoid undue concentration of risks with individuals. For such purpose, the Company has established exposure limits for single customers. The Company has an effective installments monitoring system which allows it to evaluate customers' creditworthiness and identify potential problem accounts. An allowance for potential installments losses is maintained at a level which, in the judgment of management, is adequate to provide for potential losses on installment that can be reasonably anticipated. The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history. However, the rating for the quality of the Company's investments cannot be determined due to the fact that the customer base of the Company consist of individuals for which such data is not readily available.

The following table set out information about the credit quality of financing contracts measured at amortized cost as at December 31,2019. Investment in finance and the corresponding ECL allowance as at December 31, 2019 are classified as follows:

	December 31, 2019			
	Stage 1 not credit impaired SR	**Stage 2** credit impaired SR	**Stage 3** loss allowance SR	**Total** SR
Net carrying amount before ECL	**142,607,547**	**2,613,890**	**1,995,743**	**147,217,180**
ECL	**1,350,703**	**384,654**	**908,896**	**2,644,253**

Concentration of Credit Risk

Concentrations of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

Company's all customers are based in kingdom of Saudi Arabia and all customers are individuals so Company is not exposed to concentration risk.

Bank Credit Rating

The credit quality of the Company's bank balances is assessed with reference to external credit ratings which, in all cases, are above investment-grade rating. The bank balances along with credit ratings are tabulated below:

	2019
BBB+	**19,883,725**

21.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

21. RISK MANAGEMENT (Continued)

21.4 Liquidity Risk (Continued)

The table below summarizes the Company's financial liabilities only (other than end-of-service indemnities, zakat provision and advances from financing contracts) into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	December 31, 2019				
	Carrying Amount (SR)	Contractual Cash flows (SR)	Upto 3 months (SR)	More than 3 months and upto one year (SR)	More than one year (SR)
Due to a related party	33,440,987	33,440,987	11,147,000	22,293,987	-
Accrued and other expenses	10,671,112	10,671,112	10,671,112	-	-
	44,112,099	44,112,099	21,818,112	22,293,987	-

Analysis of financial assets and liabilities based on maturities

The table show analysis of financial assets (other than property and equipment, intangibles and prepayments) and financial liabilities (other than end-of-service indemnities, zakat provision and VAT payable) according to when they are expected to be recovered or settled:

	December 31, 2019			
	Contractual cash-flows SR	Upto three months SR	More than three months and upto one year SR	More than one year SR
Cash and cash equivalents	19,888,725	19,888,725	-	-
Employee receivables	1,125,939	290,160	351,940	483,839
Net investment in financing contracts	143,899,072	12,039,221	30,666,626	101,193,225
Financial assets	164,913,736	32,218,106	31,018,566	101,677,064
Due to related parties	33,440,987	11,147,000	22,293,987	-
Other payables and accruals	10,671,112	10,671,112	-	-
Financial liabilities	44,112,099	21,818,112	22,293,987	-
Maturity Gap	120,801,637	10,399,994	8,724,579	101,677,064
Cumulative Maturity Gap	-	10,399,994	19,124,573	120,801,637

21. RISK MANAGEMENT (Continued)

21.5 Fair values of financial assets and liabilities

The Company's financial assets consist of cash and bank balances, net investment in financing contracts and other receivables, its financial liabilities consist of due to a related party and other liabilities.

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

The fair values of financial instruments are not materially different from their carrying values.

	December 31, 2019	
	Carrying Value SR	**Fair Value SR**
Financial Assets		
Net investment in Islamic financing contracts, net	**143,899,072**	**143,899,072**
Cash and bank balances	**19,888,725**	**19,888,725**
Employee receivables	**1,125,939**	**1,125,939**
Total	**164,913,736**	**164,913,736**

	December 31, 2019	
	Carrying Value SR	**Fair Value SR**
Financial Liabilities		
Due to a related party	**33,440,987**	**33,440,987**
Other payable and liabilities	**10,671,112**	**10,671,112**
	44,112,099	**44,112,099**

21.6 Capital risk management

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to maintain a strong capital base to support the sustained development of its business.

The Company manages its capital structure and makes adjustments to it in light of the changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the period ended December 31, 2019.

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA. SAMA requires Finance Companies engaged in financing other than real estate, not to exceed aggregate financing to capital ratio of three times.

	December 31, 2019 SR
Aggregate financing to capital ratio (Net investment in financing contracts divided by total equity)	**1.1**

21.7 Segment

The management views the whole activities of the Company as one operating segment.

22. SUBSEQUENT EVENTS

In the opinion of the management, there have been no significant subsequent events since the period end that would have a material impact on the financial position of the Company as reflected in these financial statements.

23. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on 7 Rajab 1441H (corresponding to March 2, 2020G) by the Board of Directors of the Company.