

TAMWEEL AI OULA COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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(SAUDI CLOSED JOINT STOCK COMPANY)

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**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF TAMWEEL AL OULA COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY)**

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Opinion

We have audited the financial statements of Tamweel Al Oula Company (Saudi Closed Joint Stock Company) (the "Company"), which comprise of the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Matter

The financial statements of the Company for the period ended 31 December 2018, were audited by another auditor who expressed an unqualified opinion on those financial statements on 28 February 2019.

As part of our audit of the financial statements for the year ended 31 December 2019, we also audited the adjustments described in Note 3.1 that were applied to amend the financial statements for the period ended 31 December 2018. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements for the period ended 31 December 2018 of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the period ended 31 December 2018 taken as a whole.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-Laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF TAMWEEL AL OULA COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY) – (CONTINUED)**

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF TAMWEEL AL OULA COMPANY
(SAUDI CLOSED JOINT STOCK COMPANY) – (CONTINUED)**

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Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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.

for Ernst & Young



Marwan Al-Afaliq
Certified Public Accountant
Registration No. 422



29 Jumada II 1441H
23 February 2020

Al Khobar

TAMWEEL AL OULA COMPANY
(Saudi Closed Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	<i>For the year ended 31 December 2019</i> SR	<i>For the period from 1 October 2017 to 31 December 2018</i> SR <i>(Restated)</i>
Revenue			
Revenue from operations	7	41,683,528	54,943,126
Revenue from other activities	8	3,400,828	1,072,219
TOTAL INCOME		45,084,356	56,015,345
EXPENSES			
Finance costs and bank charges	9	(4,265,846)	(1,311,522)
Insurance expenses for finance leasing activities		(4,479,986)	(8,886,701)
Salaries and employees' related expenses		(15,344,757)	(18,789,489)
Rent		(33,000)	(1,322,480)
Depreciation and amortisation		(2,343,302)	(1,554,355)
(Charge)/reversal of expected credit loss on Islamic finance receivables	11	(2,593,118)	254,630
Other general and administrative expenses	10	(6,419,825)	(7,102,439)
TOTAL EXPENSES		(35,479,834)	(38,712,356)
PROFIT BEFORE ZAKAT		9,604,522	17,302,989
Zakat	24	(979,354)	(411,874)
PROFIT FOR THE YEAR/PERIOD		8,625,168	16,891,115
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement gain/(loss) on employees' defined benefits liabilities	20	7,321	(78,537)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		8,632,489	16,812,578

The attached notes 1 to 29 form part of these financial statements.

TAMWEEL AL OULA COMPANY
(Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Note</i>	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
ASSETS			
NON-CURRENT ASSETS			
Net investment in Islamic finance receivables	11	215,740,786	156,440,690
Right-of-use assets	12	2,303,353	-
Intangible assets	13	2,286,790	1,982,603
Property and equipment	14	1,087,151	1,330,036
Equity investment at fair value through other comprehensive income "OCI"	15	892,850	892,850
TOTAL NON-CURRENT ASSETS		222,310,930	160,646,179
CURRENT ASSETS			
Net investment in Islamic finance receivables - current	11	176,305,779	129,247,074
Prepayments and other receivables	16	4,405,724	5,968,524
Bank balances and cash		13,715,010	33,355,767
TOTAL CURRENT ASSETS		194,426,513	168,571,365
TOTAL ASSETS		416,737,443	329,217,544
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	17	250,000,000	250,000,000
Statutory reserve		6,554,603	5,692,086
Retained earnings		14,474,335	20,546,753
TOTAL SHAREHOLDERS' EQUITY		271,028,938	276,238,839
NON-CURRENT LIABILITIES			
Loans and borrowings	18	37,030,649	25,665,022
Government grant	18	3,627,049	1,468,127
Lease liabilities	19	445,160	-
Employees' defined benefits liabilities	20	3,767,769	3,475,926
TOTAL NON-CURRENT LIABILITIES		44,870,627	30,609,075
CURRENT LIABILITIES			
Loans and borrowings - current portion	18	66,696,082	13,657,696
Accounts payable	21	13,960,939	3,573,356
Amounts due to related parties	22	12,226,669	1,792,282
Lease liabilities - current	19	1,114,730	-
Accrued expenses and other liabilities	23	5,849,040	2,877,161
Provision for zakat	24	990,418	469,135
TOTAL CURRENT LIABILITIES		100,837,878	22,369,630
TOTAL LIABILITIES		145,708,505	52,978,705
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		416,737,443	329,217,544

The attached notes 1 to 29 form part of these financial statements.

TAMWEEL AL OULA COMPANY
(Saudi Closed Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

	<i>Share capital</i> SR	<i>Statutory reserve</i> SR	<i>Retained earnings</i> SR	<i>Total</i> SR
As at 1 October 2017	250,000,000	3,969,641	34,379,344	288,348,985
Profit for the period	-	-	16,891,115	16,891,115
Other comprehensive loss for the period	-	-	(78,537)	(78,537)
Total comprehensive income for the period	-	-	16,812,578	16,812,578
Dividends	-	-	(28,922,724)	(28,922,724)
Transfer to statutory reserve	-	1,722,445	(1,722,445)	-
As at 31 December 2018	250,000,000	5,692,086	20,546,753	276,238,839
Profit for the year	-	-	8,625,168	8,625,168
Other comprehensive income for the year	-	-	7,321	7,321
Total comprehensive income for the year	-	-	8,632,489	8,632,489
Dividends (note 25)	-	-	(13,842,390)	(13,842,390)
Transfer to statutory reserve	-	862,517	(862,517)	-
Balance at 31 December 2019	250,000,000	6,554,603	14,474,335	271,028,938

The attached notes 1 to 29 form part of these financial statements.

TAMWEEL AL OULA COMPANY
(Saudi Closed Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	<i>For the year ended 31 December 2019</i>	<i>For the period from 1 October 2017 to 31 December 2018</i>
	<i>SR</i>	<i>SR</i>
OPERATING ACTIVITIES		
Profit before zakat	9,604,522	17,302,989
Adjustments for:		
Depreciation and amortisation	2,343,302	1,554,355
Finance costs and bank charges	4,265,846	1,311,522
Employees' defined benefits liabilities, charged (Charge)/reversal of expected credit loss on Islamic finance receivables	631,450	1,337,926
Grant income realised	2,593,118	(254,630)
Loss on sale of property and equipment	(2,214,854)	(122,343)
	-	7,819
	<u>17,223,384</u>	<u>21,137,638</u>
Changes in operating assets and liabilities:		
Net investment in Islamic finance receivables	(108,951,919)	(27,928,384)
Prepayments and other receivables	1,562,800	(3,507,492)
Amounts due to related parties	10,434,387	(1,149,264)
Accounts payable	10,387,583	(9,371,696)
Accrued expenses and other liabilities	2,971,879	(458,478)
Cash use in operations	(66,371,886)	(21,277,676)
Employees' defined benefits liabilities, paid	(465,172)	(169,915)
Zakat paid	(458,071)	(684,737)
Finance costs and bank charges paid	(1,922,400)	(718,720)
Net cash used in operating activities	<u>(69,217,529)</u>	<u>(22,851,048)</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(497,258)	(297,570)
Additions of intangible assets	(839,996)	-
Acquisition of equity investments	-	(892,850)
Proceeds from disposal of property and equipment	-	688
Net cash used in investing activities	<u>(1,337,254)</u>	<u>(1,189,732)</u>
FINANCING ACTIVITIES		
Dividends paid	(13,842,390)	(28,922,724)
Payment of lease liabilities	(1,888,606)	-
Proceeds from loans and borrowings	105,000,000	43,900,000
Repayment of loans and borrowings	(38,354,977)	(3,472,222)
Net cash from financing activities	<u>50,914,027</u>	<u>11,505,054</u>
DECREASE IN BANK BALANCES AND CASH	<u>(19,640,756)</u>	<u>(12,535,726)</u>
Bank balances and cash at the beginning of the year/period	33,355,767	45,891,493
BANK BALANCES AND CASH AT THE END OF THE YEAR/PERIOD	<u><u>13,715,010</u></u>	<u><u>33,355,767</u></u>

The attached notes 1 to 29 form part of these financial statements.

TAMWEEL AL OULA COMPANY
(Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS

At 31 December 2019

1 CORPORATE INFORMATION

Tamweel Al Oula Company ("the Company"), is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 2050055043 dated 15 Ramadan 1436H (corresponding to 2 July 2015) operating under license number 39/ASH/201512 dated 21 Safar 1437H (corresponding to 3 December 2015) issued by Saudi Arabian Monetary Authority ("SAMA").

The Company's registered office is located at PO 34232, Dammam, Kingdom of Saudi Arabia. The Company operates through the following branches:

<i>Commercial Registration Name</i>	<i>Number</i>	<i>Location</i>	<i>Date</i>
Tamweel Al Oula - Branch	2051065442	Al Khobar	17/04/1493H
Tamweel Al Oula - Branch	2252101795	Al Hasa	02/06/1439H

The Company is engaged in financing lease, consumer finance and productive assets finance.

The financial statements of the Company as of 31 December 2019 were authorised for issuance on 23 February 2020 (corresponding to 29 Jumada II 1441H).

In accordance with the By-Laws of the Company, the Company acquired the operations, related assets and liabilities of Tamweel Trading and Instalments, a branch of Al Kifah Trading Company (a shareholder), as at 2 July 2015. The details of net assets acquired as follows:

	SR
Cash and cash equivalents	16,866,415
Net investment in Islamic finance receivables	463,387,079
Allowance for lease losses	(8,892,725)
Advances, prepayments and other receivables	3,069,010
Property and equipment	3,045,610
Intangible assets	45,189
Pre-organisation expenses	2,362,716
Capital work in progress	3,112,500
Total assets	482,995,794
Long term loans from related parties	(303,829,810)
Accounts payable	(36,284,233)
Accrued expenses and other liabilities	(4,743,372)
Employees' terminal benefits	(1,105,110)
Total liabilities	(345,962,525)
Net assets transferred	137,033,269

Cash considerations paid by the Company is equal to the book value of net assets transferred, which approximate the fair value.

Furthermore, in October 2015, the Company has disposed certain financial assets (investment in finance lease) to Al Kifah Trading Company (a shareholder) amounted to SR 66.8 million. Lease receivables and related unearned finance lease income transferred were amounted to SR 71.5 million and SR 4.7 million, respectively

Management has notified SAMA about these transaction in order to obtain a no-objection letter as required by Implementing Regulations of the Finance Companies Control Law which has not been received till the statement of financial position date.

TAMWEEL AL OULA COMPANY
(Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

2 BASIS OF PREPARATION

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS" as endorsed in KSA).

On 17 July 2019, SAMA instructed the Companies in the Kingdom of Saudi Arabia to account for the zakat and income tax in the statement of profit or loss. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (the effects of this change are disclosed in note 3 to the financial statements).

2.1 Basis of measurement

The financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except otherwise as disclosed in note 5.

2.2 Presentation and functional currency

The presentation and functional currency of the Company is Saudi Riyal.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Company has not early adopted any new standard, interpretation or amendment that have been issued but which are not yet effective. The nature and the impacts are elaborated below:

3.1 Change in accounting for zakat and income tax

As mentioned in note 2, the basis of preparation has been changed from the period ended 30 June 2019 as a result of the issuance of instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of profit or loss, this aligns with IFRS as endorsed in KSA.

The change has resulted in reduction of reported income of the Company for the period ended 31 December 2018 by SR 411,874. The change has had no impact on the statement of financial position, change in shareholders' equity and cash flows for the year ended 31 December 2018.

In March 2019, new Zakat Regulations were issued by GAZT under resolution No. 2215 dated 7/7/1440 (14 March 2019) (the "Zakat Regulations") which provided a new basis for calculation of Zakat for companies engaged in financing activities.

The Zakat base computed in accordance with the formula specified in the Zakat Regulations is also subject to thresholds for minimum and maximum liability. For zakat policy, please refer to note 5.

3.2 Change in accounting for lease (IFRS 16)

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

TAMWEEL AL OULA COMPANY
(Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.2 Change in accounting for lease (IFRS 16) (continued)

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

	<i>SR</i>
<i>Assets</i>	
Right-of-use assets	2,591,844
<i>Liabilities</i>	
Lease liabilities - non-current	738,717
Lease liabilities - current	1,853,127

Company as a lessee

A) Nature of the effect of adoption of IFRS 16

The Company has lease contracts for various items of office and showrooms for a period from a year to 3 years with renewal option for some of its lease for additional period of 3 years after the end of non-cancellable period. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

• *Leases previously classified as finance leases*

The Company did not have any contracts identified as finance lease under IAS 17.

TAMWEEL AL OULA COMPANY
(Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.2 Change in accounting for lease (IFRS 16) (continued)

Company as a lessee (continued)

• *Leases previously accounted for as operating leases*

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	<i>SR</i> 829,467
Weighted average incremental borrowing rate as at 1 January 2019	3.85%
Discounted operating lease commitments at 1 January 2019	736,996
Add:	
Payments in optional extension periods not recognised as at 31 December 2018	<u>1,854,848</u>
Lease liabilities as at 1 January 2019	<u><u>2,591,844</u></u>

For lease accounting policy, please refer to note 5.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The Amendments to IAS 19 'Employee Benefits' specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. The Amendments require a company to use the updated assumptions from this re-measurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

The amendments had no impact on the financial statements of the Company as it did not have any plan amendments, curtailments, or settlements during the year.

TAMWEEL AL OULA COMPANY
(Saudi Closed Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

IFRIC Interpretation 23 - Uncertainty over Income Tax Treatment

The Interpretation addresses accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 'Income Taxes' ("IAS 12") and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable results, tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation did not have an impact on the financial statements of the Company.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Company.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the financial statements as the Company does not have long-term interests in its associate and joint venture.

Annual Improvements 2015-2017 Cycle

• IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Company as there is no transaction where joint control is obtained.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

Annual Improvements 2015-2017 Cycle (continued)

• IFRS 11 Joint Arrangements

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the financial statements of the Company as there is no transaction where a joint control is obtained.

• IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

These amendments are not applicable to the Company.

• IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

These amendments are not applicable to the Company.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- Amendments to IFRS 3: Definition of a Business
- IFRS 17 Insurance Contracts
- Amendments to IAS 1 and IAS 8: Definition of Material

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company in preparing these financial statements are as follows:

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when:

- It is expected to be realised or intended to sold or consumed in normal operating cycle;
- It is expected to be realised within twelve months after the reporting period; or
- It is cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer settlement of liability for at least twelve months after the reporting period.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Leasing revenue

Gross investment in finance lease represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments discounted at profit rate implicit in the lease. The difference between the gross investment and the net investment is recognised as unearned finance income. Finance lease income is recognised over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding. As part of the periodic instalments due from customers, the Company charges customers for insurance cover on the assets under lease contracts. Consequently, premiums are paid to the insurers for the insurance cover for the assets under lease, pursuant to the agreement. Interest on past due and impaired loans is recognised and reserved from income and recognized to the extent of the interest on overdue instalments collected.

Tawaroq Revenue

The amortized cost of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective commission rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Service fees

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

Other income

Other income is recognized when earned.

General and administrative expenses

General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company.

Borrowing costs

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

Zakat

Policy effective from 1 January 2019

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT") applicable on financing companies. Zakat expense is charged to the profit or loss. The charge for the period is calculated based on estimated zakat charge for the whole year.

The Zakat base computed in accordance with the formula specified in the Zakat Regulations is also subject to thresholds for minimum and maximum liability.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat (continued)

Policy effective before 1 January 2019

Zakat is provided in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia and on accruals basis. The provision is charged to equity directly.

Value added tax (VAT)

Assets and expenses are recognised net of amount of VAT, except when VAT incurred on a purchase of assets or services is not recoverable from the General Authority of Zakat and Tax (GAZT), in which case, VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Foreign currencies

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

Islamic financing receivables

Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees such transfers are classified as Islamic financing receivables. Islamic financing receivables are recorded at the lower of the fair value of the financing asset and the present value of the minimum payments. The Company provides the following services:

Ijara

Ijara are finance is an agreement wherein gross amounts due under originated Ijare (finance) includes the total of future payments on Ijara finance, plus estimated residual amounts receivable by an option to purchase the asset at the end of the respective financing term. The difference between the Ijara contracts receivable and the cost of the Ijare assets is recorded as unearned Ijare finance income and for presentation purposes, is deducted from the gross amounts due under Ijara finance.

Murabaha

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.

Tawaroq

Tawaroq is an agreement whereby the Company sells to a customer an asset, which the Company has already purchased and received either physically or constructively and subsequent to such sale, the customer arrange to sell the underlying asset and received the sale proceeds. The selling price comprises the cost plus an agreed profit margin. Gross amounts due under the tawaroq sale contracts include the total sale price payments on the tawaroq agreement (Tawaroq sale contract receivables)

TAMWEEL AL OULA COMPANY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tawaroq (continued)

The difference between the Tawaroq sale contracts receivables and the cost of the sold asset, is recorded as unearned Tawaroq profit and for presentation purposes, is deducted from the gross amounts due under the Tawaroq sale contracts receivable.

Lease

Policy effective from 1 January 2019

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use).

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Lease liability

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the average borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term and low value assets' leases

Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items that do not meet the Company's capitalization threshold and are considered to be insignificant for the statement of financial position for the Company as a whole. Payments for short-term leases and leases of low-value assets are recognised on a straight-line basis in the statement of profit or loss.

TAMWEEL AL OULA COMPANY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease (continued)

Policy before 1 January 2019:

Leases in which substantially all the risks and benefits of ownership of the asset are not transferred to the Company are classified as operating leases. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Intangible assets

Intangible assets includes software; Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Software costs is amortised over a period of 5 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in statement of profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

	Years
Leasehold improvements	5
Office furniture and fixtures	4
Computers	4-5

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- (i) Financial assets at amortised cost (debt instruments)
- (ii) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- (iii) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- (iv) Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes net investment in Islamic finance receivables.

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Company's does not have debt instruments at fair value through OCI.

TAMWEEL AL OULA COMPANY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - (a) the Company has transferred substantially all the risks and rewards of the asset, or
 - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial instruments

The Company recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- Financial assets that are debt instruments; and
- Loan commitments issued, if any.

No impairment loss is recognised on equity investments.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Impairment of financial instruments (continued)

The Company measures loss allowances at an amount equal to lifetime ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The key inputs into the measurement of ECL are based on the following variables:

- Loss rate · Exposure at default (EAD) The Company categorizes its leasing and murabaha portfolio into four groups depending on the size of financing and associated risks:
 - Large exposure of large customers.
 - Collective SME's customers.
 - Collective retail customers.

The Company also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs. The forward-looking information will include the elements such as expert judgement, macroeconomic factors (e.g., government expenditure and money supply) and economic forecasts obtained through internal and external sources.

Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date; an estimate of lifetime loss is made, considering the loss rate, exposure at defaults, taking into account the forward looking information i.e. the macro-economic factor;
- 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 inflows.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.
- This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original special commission rate of the existing financial asset.

TAMWEEL AL OULA COMPANY

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Impairment of financial instruments (continued)

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised 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.

A financial asset that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, financial assets that are overdue for 720 days or more are considered impaired, unless evidence to the contrary exists.

Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in forms, of non-financial assets. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. The fair value of collateral is considered for the calculation of ECLs. The value of the collateral is determined at inception and subsequently as and when considered necessary.

Collateral repossessed

The Company determine whether a repossessed asset can be sold. Assets are sold in line with the Company's policy and any difference in the amount lent and assets sold is recorded in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade payables, amounts due to related parties, lease liabilities and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

- (i) Financial liabilities at fair value through profit or loss
- (ii) Loans and borrowings

Out of above, only the category (ii) is applicable for the Company, which is described hereunder:

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

TAMWEEL AL OULA COMPANY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial liabilities (continued)

Loans and borrowings (continued)

When the Company obtains government loan at below market interest rate, the loan's amortised cost is calculated using an effective interest rate based on market rates. The subsidy is recognised as government grant.

Derecognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-zakat discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, 10% of the profit for the year is required to be transferred to the statutory reserve each year. The shareholders' may resolve to discontinue such transfer when the reserve equals 30% of the capital. This reserve is not normally available for distribution except in circumstances specified in the Saudi Arabian Regulations for Companies.

TAMWEEL AL OULA COMPANY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2019

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leaves and air fare that are expected to be settled wholly within twelve months after the end of the year in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting year and are measured at amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in statement of financial position.

(ii) Employees' terminal benefits

The Company has end of service benefits which is qualifies as defined benefits plan. The net pension liability or liability recognised in the statement of financial position in respect of defined benefit post-employment plans is the present value of the projected defined benefits obligation (DBO) less fair value of plan assets, if any.

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. The net interest cost is calculated by applying the discount rate to the net balance of the DBO and the fair value of plan assets. This cost is included in employee benefit expense in the statement of income.

Re-measurement gains and losses arising from changes in actuarial assumptions are recognised in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognised immediately in the statement of income as past service costs.

In KSA, for the liability for employees' end of service benefits, the actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labor and Workmen Law as well as the Company policy.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management of the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current Pre-tax (Zakat) rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Accounting for government grants and disclosure of government assistance

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant and is recognised in the statement of profit or loss on a systematic basis over the period in which the entity recognises as expense the related costs which the grants is intended to compensate.

Cash dividends

The Company's recognises a liability to pay dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws of Saudi Arabia, a distribution is authorised when it is approved by the shareholders. a corresponding amount is recognised directly in equity.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these Company's financial statements require management to make judgements, estimates and assumptions that may affect the reported amount of revenues, expenses, assets, liabilities and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates which could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgments in applying accounting policies (that have the most significant effect on the amount recognised in the financial statements) include:

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Credit losses of finance lease and murabaha financing receivables

Impairment of finance lease and murabaha financing receivable requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's model for determination of defaults, which assigns loss rate (LR) to the individual pool of receivables and assessing the exposure at default (EAD).
- The Company's criteria for assessing the credit losses for finance leases and murabaha financing receivables to be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment.
- The segmentation of finance leases and murabaha financing receivables when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the appropriate inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as government spending, and the effect on LR.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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At 31 December 2019

6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Useful lives of property and equipment and intangible assets

The management determines the estimated useful lives of its property and equipment and intangible assets for calculating depreciation/amortisation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation/amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

During the period , the Company revised the useful lives of intangible assets, please refer to note 13.

Determination of discount rate for lease contracts

The Company as a lessee, measures the lease liability at the present value of the unpaid lease payments at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in similar economic environment.

The Company determines its incremental borrowing rate with reference to its existing and historical cost of borrowing adjusted for the term and security against such borrowing.

Determination of lease term

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms from a year to three years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal.

After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Company included the renewal period as part of the lease term for leases of office and showrooms due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years).

Determination of discount rate for below-market loans:

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration time value of money. The Company determines the discount rate for below-market loans with reference to similar loans obtained from non-government agencies.

Valuation of employees' defined benefits liabilities

Employees' defined benefits liabilities represent obligations that will be settled in the future and require assumptions to project obligations, if any. The accounting requires management to make further assumptions regarding variables such as discount rates, rate of compensation increases, mortality rates and employment turnover. Periodically, management of the Company consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee' defined benefit costs incurred.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

6 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Estimates and assumptions (continued)

Provisions

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

7 REVENUE FROM OPERATIONS

	<i>For the year ended 31 December 2019</i>	<i>For the period from 1 October 2017 to 31 December 2018</i>
	SR	SR
Lease income	39,581,245	54,943,126
Tawaroq revenue	2,102,283	-
	<u>41,683,528</u>	<u>54,943,126</u>

All of the Company's revenue is generated in the Kingdom of Saudi Arabia. Revenue is recognized at over time.

8 REVENUE FROM OTHER ACTIVITIES

	<i>For the year ended 31 December 2019</i>	<i>For the period from 1 October 2017 to 31 December 2018</i>
	SR	SR
Finance income, government grant	2,214,854	122,343
Income from term deposit	331,841	233,183
Income from Human Resource Development Fund	31,000	466,511
Management fee	120,000	150,000
Others	703,133	100,182
	<u>3,400,828</u>	<u>1,072,219</u>

9 FINANCE COSTS AND BANK CHARGES

	<i>For the year ended 31 December 2019</i>	<i>For the period from 1 October 2017 to 31 December 2018</i>
	SR	SR
Finance cost on loans and borrowings	3,914,932	953,135
Bank charges	140,238	250,995
Finance costs on employees' defined benefits liabilities	132,886	107,392
Finance cost on lease liabilities	77,791	-
	<u>4,265,847</u>	<u>1,311,522</u>

TAMWEEL AL OULA COMPANY

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

10 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	<i>For the year ended 31 December 2019</i>	<i>For the period from 1 October 2017 to 31 December 2018</i>
	SR	SR
Advertising expenses	1,243,996	1,076,302
Governmental licenses and fees	1,033,959	1,365,359
IT services	1,020,207	584,375
Services charges	903,864	1,062,292
Professional and consulting fees	612,020	1,346,944
Utilities expenses	155,777	406,881
Office supplies	142,723	397,031
Cleaning expenses	114,609	103,336
Visa, permits and licenses	248,862	179,108
Travel and transportation expenses	165,363	163,609
Repair and maintenance	62,526	139,190
Other expenses	715,919	278,012
	<u>6,419,825</u>	<u>7,102,439</u>

11 NET INVESTMENT IN ISLAMIC FINANCE RECEIVABLES

	<i>31 December 2019</i>	<i>31 December 2018</i>
	SR	SR
Gross investment in Islamic finance receivables	493,748,184	362,461,295
Less: unearned finance income	<u>(86,239,777)</u>	<u>(63,904,807)</u>
Investment in Islamic finance receivables (before allowance for expected credit loss on Islamic finance receivables)	407,508,407	298,556,488
Less: allowance for expected credit loss on Islamic finance receivables	<u>(15,461,842)</u>	<u>(12,868,724)</u>
Net investment in Islamic finance receivables	<u>392,046,565</u>	<u>285,687,764</u>
Analysed as follows:		
Net investment in Islamic finance receivables, current	176,305,779	129,247,074
Net investment in Islamic finance receivables, non-current	<u>215,740,786</u>	<u>156,440,690</u>
	<u>392,046,565</u>	<u>285,687,764</u>

Movement in the allowance for expected credit loss on finance receivables is as follows:

	<i>31 December 2019</i>	<i>31 December 2018</i>
	SR	SR
At the beginning of the period/year	12,868,724	13,123,354
Provided during the year/period	2,593,118	-
Reversed during the year/period	-	(254,630)
At the end of the year/period	<u>15,461,842</u>	<u>12,868,724</u>

TAMWEEL AL OULA COMPANY

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

11 NET INVESTMENT IN ISLAMIC FINANCE RECEIVABLES (continued)

Investment in Islamic finance leases includes the following balances due from related parties:

<u>Related party</u>	<u>Relationship</u>	31 December 2019 SR	31 December 2018 SR
Al Kifah Real Estate Company	Affiliate	23,240,398	-
Al Kifah Paper Products Company	Affiliate	23,217,963	-
Al Kifah Precast Company	Affiliate	23,217,963	-
Al Kifah Contracting Company	Shareholder	18,003,601	25,000,000
Al Kifah for Building Material Company	Shareholder	17,295,167	24,366,524

Related parties' transactions are disclosed under note 22.

The collectability of the gross investment in Islamic finance receivables as at 31 December 2019 is as follows:

	Gross investment in Islamic finance receivables SR	Unearned lease finance income SR	Net investment in Islamic finance receivables SR
No later than one year	237,500,324	(45,732,703)	191,767,621
Later than one year but not later than 5 years	256,247,860	(40,507,074)	215,740,786
	493,748,184	(86,239,777)	407,508,407

The collectability of the gross investment in Islamic finance receivables as at 31 December 2018 was as follows:

	Gross investment in Islamic finance receivables SR	Unearned lease finance income SR	Net investment in Islamic finance receivables SR
No later than one year	178,867,740	(36,121,941)	142,745,799
Later than one year but not later than 5 years	183,593,555	(27,782,866)	155,810,689
	362,461,295	(63,904,807)	298,556,488

The Company's implicit rate of return on investment in Islamic finance receivables is in market rate range. Investment in Islamic finance receivables are secured against assets and down payments except Tawaroq receivables. The Company's major activities for investment in finance receivables are vehicles and heavy equipment.

Investment in finance receivables include murabaha contracts amounting to SR 2 million (31 December 2018: SR 2.7 million) and Tawaruq contracts amounting to SR 82 million (31 December 2018: SR nil)

As at 31 December 2019, the contractual rights and the titles of certain assets subject to the financing arrangements are under the name of Al Kifah Trading Company (a shareholder) amounting to SR 17.01 million (31 December 2018: SR 39 million) of Islamic financing receivables. The shareholder waived rights over the assets and confirmed that the risks and rewards pertaining to the assets have been transferred to the Company.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

12 RIGHT-OF-USE ASSETS

	<i>Office and showrooms</i>	<i>Total</i>
	SR	SR
Cost:		
At the beginning of the year (note 3.2)	2,591,844	2,591,844
Additions	778,859	778,859
At 31 December 2019	<u>3,370,703</u>	<u>3,370,703</u>
Accumulated depreciation:		
At the beginning of the year (note 3.2)	-	-
Charge for the year/period	1,067,350	1,067,350
At 31 December 2019	<u>1,067,350</u>	<u>1,067,350</u>
Net carrying amounts		
At 31 December 2019	<u>2,303,353</u>	<u>2,303,353</u>

The following had been recognised in profit or loss:

	<i>For the year ended 31 December 2019</i>	<i>For the period from 1 October 2017 to 31 December 2018</i>
	SR	SR
Depreciation expenses for right-of-use assets	1,067,350	-
Expenses related to short-term/ low-value leases	33,000	-
Finance cost on lease liabilities	77,791	-
	<u>1,178,141</u>	<u>-</u>

13 INTANGIBLE ASSETS

Intangible balance represents the cost of Enterprise Resources Planning ("ERP") software.

	<i>31 December 2019</i>	<i>31 December 2018</i>
	SR	SR
Cost:		
Balance at the beginning of the year/period	3,160,067	3,160,067
Additions	839,996	-
Balance at the end of the year/period	<u>4,000,063</u>	<u>3,160,067</u>
Accumulated amortisation:		
Balance at the beginning of the year/period	1,177,464	516,596
Charge for the year/period	535,809	660,868
Balance at the end of the year/period	<u>1,713,273</u>	<u>1,177,464</u>
Net book value :		
As at 31 December 2019	<u>2,286,790</u>	
As at 31 December 2018		<u>1,982,603</u>

During 2018, the Company had revised its accounting estimate relating to the useful life of intangibles assets reducing the useful life from ten to seven years and impact of this revision had been recognized in the statement of profit or loss for the prior year period. Had there been no change in the accounting estimate the income for the current period would have been higher by SR 0.26 million and the carrying amount of this item of intangibles assets would have been higher by same amount. The change in accounting estimate reduced the income for the future periods by SR 0.7 million.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
At 31 December 2019

14 PROPERTY AND EQUIPMENT

	<i>Leasehold Improvements</i>	<i>Office furniture and fixtures</i>	<i>Computers</i>	<i>Total</i>
	SR	SR	SR	SR
<i>Cost:</i>				
At 1 October 2017	1,736,934	552,452	858,100	3,147,486
Additions	44,590	161,864	91,116	297,570
Disposals	-	(19,140)	(3,420)	(22,560)
At 31 December 2018	<u>1,781,524</u>	<u>695,176</u>	<u>945,796</u>	<u>3,422,496</u>
Additions	300,000	68,963	128,295	497,258
At 31 December 2019	<u>2,081,524</u>	<u>764,139</u>	<u>1,074,091</u>	<u>3,919,754</u>
<i>Accumulated depreciation :</i>				
At 1 October 2017	580,402	287,583	345,041	1,213,026
Charge for the year	432,712	186,410	274,365	893,487
Disposals	-	(11,495)	(2,558)	(14,053)
At 31 December 2018	<u>1,013,114</u>	<u>462,498</u>	<u>616,848</u>	<u>2,092,460</u>
Charge for the year	410,270	117,876	211,997	740,143
At 31 December 2019	<u>1,423,384</u>	<u>580,374</u>	<u>828,845</u>	<u>2,832,603</u>
<i>Net book value</i>				
At 31 December 2019	<u>658,140</u>	<u>183,765</u>	<u>245,246</u>	<u>1,087,151</u>
At 31 December 2018	<u>768,410</u>	<u>232,678</u>	<u>328,948</u>	<u>1,330,036</u>

15 EQUITY INVESTMENTS

Based on the instructions of Saudi Arabian Monetary Authority "SAMA" in the month of December 2017 a new entity was incorporated to register the leasing contracts in the Kingdom of Saudi Arabia called "Saudi for leasing registration" ("the Investee"). SAMA instructed all leasing companies and banks to contribute to the capital of the new investee. The Company contributed SR 892,850, towards 89,285 shares (2% of total shares) and paid the amount in December 2017. Investment has been classified as fair value through other comprehensive income (FVTOCI). Fair value pertains to level 3.

16 PREPAYMENTS AND OTHER RECEIVABLES

	<i>31 December 2019</i>	<i>31 December 2018</i>
	SR	SR
Insurance claims	2,169,719	2,055,024
Claims receivables from customers	1,097,096	1,467,700
Prepayments	837,280	1,522,559
Advance to suppliers	293,644	804,004
Others	7,987	119,237
	<u>4,405,726</u>	<u>5,968,524</u>

TAMWEEL AL OULA COMPANY

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

17 SHARE CAPITAL

The authorised, issued and paid up capital is SR 250 million as at 31 December 2019 consisting of 25 million shares (31 December 2018: SR 250 million consisting of 25 million shares) of SR 10 share. The ownership % and number of shares as of 31 December 2019 and 31 December 2018 are as follows:

Name of shareholders	Ownership %	Number of shares	Amount SR
Al Kifah Holding Company	80%	20,000,000	200,000,000
International Developers Company	5%	1,250,000	12,500,000
Al Kifah for Building Material Company	5%	1,250,000	12,500,000
Al Kifah Trading Company	5%	1,250,000	12,500,000
Al Kifah Contracting Company	5%	1,250,000	12,500,000
	100%	25,000,000	250,000,000

18 LOANS AND BORROWINGS

	Social Development Bank financing	Tawaruq financing	31 December 2019 SR	31 December 2018 SR
Current portion	20,870,085	45,825,997	66,696,082	13,657,696
Non-current portion	37,030,649	-	37,030,649	25,665,022
Total	57,900,734	45,825,997	103,726,731	39,322,718

During 2019, the Company obtained Tawaruq financing facility from a local commercial bank to finance the purchase of assets for leasing services, the Tawaruq is repayable over 3 equal monthly instalments commenced from December 2019. the loan carries financial charges at prevailing market borrowing costs plus SIBOR. These borrowings are secured by promissory notes issued by the shareholders. The Company is required to comply with certain covenants under the facility agreements which includes maintenance of certain leverage ratios. No breach of covenants during the year.

The Company obtained long term loans from a government agent to finance the purchase of assets for leasing services for small and medium sized entities. The loans agreements do not include any covenant to maintain financial ratios during the loans period. The loan are not subject to any interest charges; however the loans carry transactions costs which are amortised as part of the finance costs over the duration of the loans.

The loans are carried at fair value using internal rate of return equivalent to the prevailing market rate. The difference between carrying value and face value as of initial recognition date, is treated as government grant, which is amortised over the duration of the related loans.

TAMWEEL AL OULA COMPANY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

19 LEASES

Movement in lease liabilities is as follows:

	<i>31 December</i> <i>2019</i> <i>SR</i>	<i>31 December</i> <i>2018</i> <i>SR</i>
At 1 January (note 3.2)	2,591,844	-
Additions during the year	778,860	-
Finance costs for the year	77,791	-
Payments during the year	(1,888,605)	-
At 31 December	<u>1,559,890</u>	<u>-</u>

Classified as:

Current	445,160	-
Non-current	1,114,730	-
	<u>1,559,890</u>	<u>-</u>

Maturity analysis - contractual undiscounted cash flows

	<i>2019</i> <i>SR</i>	<i>2018</i> <i>SR</i>
Less than 1 year	496,639	-
Later than one year to five years	1,121,639	-
	<u>1,618,278</u>	<u>-</u>

20 EMPLOYEES' DEFINED BENEFITS LIABILITIES

Post employments benefits

The management has carried out an exercise to assess the present value of its employees' defined benefits liabilities at 31 December in respect of employees' defined benefits liabilities under relevant local regulations and contractual arrangements. The following tables summarise the components of net benefit expense recognised in the statement of comprehensive income and balances reported in the statement of financial position:

Present value of end of service benefits (Statement of financial position)

Present value of employees' defined benefits liabilities	<u>3,767,769</u>	<u>3,475,926</u>
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The following table summarizes the components of the net benefit expense recognized in the income statement and statement of comprehensive income and amounts recognized in the statement of financial position.

Net benefit expense recognised in income statement:	For the year ended 31 December 2019 SR	For the period from 1 October 2017 to 31 December 2018 SR
Current service cost for the period	631,450	731,454
Interest cost on benefit obligation for the period	132,886	107,392
Prior period adjustment	-	606,472
	<u>764,336</u>	<u>1,445,318</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

20 EMPLOYEES' DEFINED BENEFITS LIABILITIES (continued)

The movement in employees' defined benefits liabilities is as follows:

	<i>31 December</i> <i>2019</i> <i>SR</i>	<i>31 December</i> <i>2018</i> <i>SR</i>
As at 1 January	3,475,926	2,121,986
Current service cost	631,450	731,454
Interest cost	132,886	107,392
Prior period adjustment	-	606,472
Actuarial gain (charged to other comprehensive income)	(7,321)	78,537
Payments during the year	(465,172)	(169,915)
As at 31 December	<u>3,767,769</u>	<u>3,475,926</u>

The principal assumptions used in determining employee benefit obligations for the Company's plans are shown below:

	<i>2019</i>	<i>2018</i>
Discount rate:	3%	4.1%
Future salary increases:	3%	3.0%
Rate of employee turnover	Moderate	High

A quantitative sensitivity analysis for significant assumption on the employees' terminal benefits as at 31 December 2019 and 2018 is as shown below:

	<i>2019</i> <i>SR</i>	<i>2018</i> <i>SR</i>
Increase in discount Rate 1%	3,468,701	3,255,008
Decrease in discount Rate - 1%	3,981,094	3,278,760
Increase in salary 1%	3,979,692	3,729,021
Decrease in salary -1%	3,465,356	3,491,590

The weighted average duration of the defined benefit obligation is 7.4 years (31 December 2018: 7.1 years). The expected maturity analysis of undiscounted defined benefit obligation is as follows (time in years):

	<i>31 December</i> <i>2019</i> <i>SR</i>	<i>31 December</i> <i>2018</i> <i>SR</i>
1	474,000	450,300
2	416,000	395,200
3	367,000	348,650
4	339,000	322,050
5	346,000	328,700
6-10	1,198,000	1,138,100
Total	<u>3,140,000</u>	<u>2,983,000</u>

21 ACCOUNTS PAYABLE

Trade payables are non-interesting bearing and are normally settled on 30 to 120 days terms. For explanations on the Company's liquidity risk management processes, refer to note 27.

TAMWEEL AL OULA COMPANY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

22 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent shareholders, directors and key management personnel of the Company and entities controlled or significantly influenced by such parties. The following are the details of the major related party transactions occurred during the period and the resulting balances at the period/ year end:

<u>Related party</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amounts of transactions</u>		<u>Balances</u>	
			2019 SR	2018 SR	31 December 2019 SR	31 December 2018 SR
<u>Amounts due from related parties - (presented under net investment in Islamic finance receivables note 11):</u>						
Al Kifah Real Estate Company	Affiliate	Twarouq Amount collected against Islamic financing receivables	25,000,000 (2,659,722)	- -	- 23,240,398	- -
Al Kifah Paper Products Company	Affiliate	Heavy machinery and equipment sales financed by the Company Amount paid against machinery and equipment financed Assets provided on lease Amount collected against Islamic financing receivables	42,000,000 (42,000,000) 25,000,000 (2,458,333)	- - - -	- - - 23,217,963	- -
Al Kifah Precast Company	Affiliate	Twarouq Amount collected against Islamic financing receivables	25,000,000 (2,458,333)	- -	23,217,963	-
Al Kifah Contracting Company	Shareholder	Amount collected against Islamic financing receivables Heavy machinery and equipment sales financed by the Company Amount paid against machinery and equipment financed Assets provided on lease to the shareholder	(9,487,848) - - - -	- 41,666,668 (41,666,668) 25,000,000	- - - 18,003,601	- - - 25,000,000

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

22 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Amounts due from related parties - (presented under net investment in Islamic finance receivables note 11) (continued):

<u>Related party</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amounts of transactions</u>		<u>Balances</u>	
			2019 SR	2018 SR	31 December 2019 SR	31 December 2018 SR
Al Kifah for Building Material Company	Shareholder	Assets provided on lease to the shareholder	2,500,000	24,366,524		
		Amount collected against Islamic	(11,586,903)	(7,375,000)	17,295,167	24,366,524
					<u>104,975,092</u>	<u>49,366,524</u>
<u>Amounts due to related parties - (presented under current liabilities):</u>						
Al Kifah Trading Company	Shareholder	Assets purchased for the purpose of leases	7,505,306	2,104,318		
		Amount paid against assets purchased	(7,235,027)	(2,104,318)		
		Management fees received by the company	(120,000)	(150,000)		
		Refund of excess balance ,net	(18,000)	-		
		Management fees paid by the company	-	198,888	181,167	48,888
Al Kifah Holding Company	Shareholder	Value added tax paid on behalf of the Company	2,319,322	729,945		
		Zakat paid on behalf of the Company	(1,616,930)	(684,737)		
		Advertising expenses	528,552	438,592		
		Amount paid against advertising expenses	(434,900)	(407,310)		
		Services provided	1,645,488	2,207,360		
		Amounts paid against services	(1,761,777)	(1,874,977)	1,981,634	1,301,879

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

22 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Amounts due to related parties - (presented under current liabilities) (continued):

<u>Related party</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amounts of transactions</u>		<u>Balances</u>	
			<u>2019</u>	<u>2018</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
			<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Al Kifah for Building Material Company	Shareholder	Heavy machinery and equipment sales financed by the Company	98,035,013	62,691,563		
		Amount paid against machinery and equipment financed	(89,428,126)	(64,994,424)	8,627,637	20,750
Al Kifah Information Technology Company (Branch of Kifah Holding Company)	Affiliate	Information technology fee	1,244,085	1,172,072		
		Amount paid against Information technology fee	(1,459,799)	(753,777)	202,582	418,295
Al Kifah Real Estate Company	Affiliate	Annual rent for the Company's head office	1,570,565	1,866,667		
		Amounts paid against rent	(384,936)	(1,866,667)		
		Services provided	-	415,896		
		Amounts paid against services	-	(413,426)	1,188,099	2,470
Al Kifah Contracting Company	Shareholder	Amount due against construction of new office	345,550	-		
		Amount paid against construction of new office	(300,000)	-	45,550	-
					<u>12,226,669</u>	<u>1,792,282</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

22 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

- Compensation and remuneration (including salaries and other benefits) for key management personnel is disclosed as follows:

	<i>31 December 2019</i>	<i>31 December 2018</i>
	<i>SR</i>	<i>SR</i>
Short-term employee benefit	1,892,918	2,709,323
Post-employment benefits	329,822	260,472
	<u>2,222,740</u>	<u>2,969,795</u>

- Prices and terms of payments of the above transactions with related parties have been approved by Company's management.

23 ACCRUED EXPENSES AND OTHER LIABILITIES

	<i>31 December 2019</i>	<i>31 December 2018</i>
	<i>SR</i>	<i>SR</i>
Advance from customers	3,698,059	1,227,961
Accrued expenses	1,465,359	1,184,085
Others	685,622	465,115
	<u>5,849,040</u>	<u>2,877,161</u>

24 ZAKAT

In March 2019, new Zakat Regulations were issued by GAZT under resolution No. 2215 dated 7/7/1440 (14 March 2019) (the "Zakat Regulations") which provided a new basis for calculation of Zakat for companies engaged in financing activities.

The Zakat base computed in accordance with the formula specified in the new Zakat Regulations, and is also subject to thresholds for minimum and maximum liability.

The change in the accounting treatment for zakat and income tax (as explained in note 3.1) has the following impact on the line items of the statements of comprehensive income and changes in shareholders' equity:

As at year ended 31 December 2019:

Financial statement impacted	Account	Before the restatement for the period ended 31 December 2018	Effect of restatement	As restated as at and for the period ended 31 December 2018:
Comprehensive income	Zakat expense	-	411,874	411,874
As at 31 December 2018	Zakat expense	-	411,874	411,874

Charge for the year

	<i>For the year ended 31 December 2019</i>	<i>For the period from 1 October 2017 to 31 December 2018</i>
	<i>SR</i>	<i>SR</i>
Charge for the year / period	979,354	411,874
Prior period adjustment	11,064	-
	<u>990,418</u>	<u>411,874</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

24 ZAKAT (continued)

The significant components of zakat base for the Company are as follows:

	<i>31 December 2019 SR</i>
Profit before zakat	9,604,522
Minimum zakat base (profit before zakat multiplied by 4)	<u>38,418,088</u>
Zakat base used by the Company	<u><u>38,418,088</u></u>

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable results.

Movements in zakat provision

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
At the beginning of the year	469,135	741,998
Provided during the year/period	979,354	411,874
Paid during the year/period	(458,071)	(684,737)
At the end of the year/period	<u><u>990,418</u></u>	<u><u>469,135</u></u>

Zakat assessments

The Company has submitted its zakat returns as part of Al Kifah Holding Company (referred as "group") consolidated zakat returns for fiscal year ended 30 September 2018 and accordingly obtained a zakat certificate valid till 30 January 2020. Starting from the quarter ended 30 June 2019, the Company calculates its zakat provision as per the rules applicable on financing companies, and for the year ended 31 December 2019, the Company would file its zakat return on stand alone basis. The Company is not liable for any additional liability related to the open assessments before 1 January 2019 pertains to the group.

25 DIVIDENDS

During the year, the shareholders approved distribution of cash dividends amounting to SR 13.8 million which were distributed.

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

At statement of financial position date all of the financial assets and financial liabilities are measured at amortised cost, except equity instrument which is classified under FVOCI and categorised under level 3 of fair value hierarchy.

Fair value of financial assets is not significantly differ from the carrying value included in the financial statements.

27 RISK MANAGEMENT

The Company's principal financial liabilities comprise loans and borrowings, government grant and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include investment in Islamic financing receivables, bank balances. The Company also holds equity instrument at FVOCI.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by a risk committee that advises on financial risks and the appropriate financial risk governance framework for the Company.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

27 RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: profit/ interest rate risk, currency risk and commodity risk. Financial instruments affected by market risk include leasing activities, loans and borrowings.

Profit/Interest rate risk

The profit/interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates and profit bearing Islamic finance receivables

As of 31 December 2019, the Company has loans from Social Development bank which are free-interest loans. The Company has a loan from a local bank bearing interest rate, an assumed increase of 100 basis points in profit/ interest rates would increase the Company's expenses for the year by SR 458,260 (2018: SR 207,160). A decrease of 100 basis points in profit/interest rates would have an equal and opposite effect.

Currency and commodity risk

The Company is not exposed to either currency nor commodity risks.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collaterals such as down payments and personal guarantees. individual Islamic financing contracts generally are for term not exceeding sixty-month.

The credit risks on gross amounts due in relation to the Islamic financing receivables is mitigated by the retention of title of financed assets and down payments.

Expected credit loss assessment for investment in Islamic finance receivables

The investment in Islamic finance receivables generally exposed to significant credit risk, therefore, the Company has established a number of procedures to manage credit risk exposure including evaluation of the lessees' credit worthiness, formal credit approvals, assigning credit limits obtaining collateral and personal guarantees.

The Company follows a credit classification mechanism, primarily driven by the day's delinquency as a tool to manage the quality of credit risk of investment in Islamic finance receivables. Further, the Company has categorised its investment in Islamic finance receivables into sub-categorised on the basis of similar credit risk characteristic. Exposures within each credit risk category are segmented by industrial classification and an ECL is calculated for each segment based on the delinquency status and actual credit loss experience over the past years. These rates are multiplied by scaler factors to reflect differences between economic conditions, current conditions and the Company's view of economic conditions over the expected lives of the investment in Islamic financing receivables.

Set out below is the information about the credit risk exposure on the Company's investment in Islamic finance receivables using a provision matrix as of 31 December 2019 and 31 December 2018:

31-Dec-19

	Weighted average loss rate	Gross carrying amount	Net carrying amount	Loss allowance	Credit impaired
Corporates & SMEs Enterprise	2.0403%	340,179,710	295,233,137	6,023,617	No
Retail	2.560%	127,139,317	90,367,188	2,313,730	No
Doubtful	27.239%	22,422,155	17,757,284	4,836,930	No
Loss	68.446%	4,007,001	3,342,165	2,287,565	Yes
		<u>493,748,183</u>	<u>406,699,774</u>	<u>15,461,842</u>	

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

27 RISK MANAGEMENT (continued)

Expected credit loss assessment for investment in Islamic finance receivables (continued)

31 December 2018

	Weighted average loss rate	Gross carrying amount	Net carrying amount	Loss allowance	Credit impaired
Corporates & SMEs Enterprise	1.6%	223,533,398	192,540,897	3,043,554	No
Retail	3.195%	120,896,704	92,956,837	2,969,714	No
Doubtful	34.51%	14,121,074	11,281,531	3,893,292	No
Loss	87.600%	3,910,119	3,380,254	2,962,164	Yes
		362,461,295	300,159,519	12,868,724	

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that the bank facilities and shareholders' support are available.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

As of 31 December 2019

	<i>Within 1 year</i> SR	<i>1 to 5 years</i> SR	<i>More than 5</i> <i>years</i> SR	<i>Total</i> SR
Accounts payable	13,960,939	-	-	13,960,939
Amounts due to related parties	12,226,669	-	-	12,226,669
Loans and borrowings	69,166,662	38,194,454	-	107,361,116
Lease liability	496,639	1,121,639	-	1,618,278
	95,850,909	39,316,093	-	135,167,002

As of 31 December 2018

	<i>Within 1 year</i> SR	<i>1 to 5 years</i> SR	<i>More than 5</i> <i>years</i> SR	<i>Total</i> SR
Accounts payable	3,573,356	-	-	3,573,356
Amounts due to related parties	1,792,282	-	-	1,792,282
Loans and borrowings	15,000,000	26,527,778	-	41,527,778
	20,365,638	26,527,778	-	46,893,416

Changes in liabilities arising from financing activities

	<i>1 January 2019</i> SR	<i>Cash outflow</i> SR	<i>Others/Cash</i> <i>inflow</i> SR	<i>31 December 2019</i> SR
Lease liabilities	2,591,844	(1,888,606)	856,651	1,559,889
Loans and borrowings	39,322,718	(38,354,977)	102,758,990	103,726,731
Dividends	-	(13,842,390)	13,842,390	-
Total liabilities from financing activities	41,914,562	(54,085,973)	117,458,031	105,286,620

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2019

27 RISK MANAGEMENT (continued)

Changes in liabilities arising from financing activities (continued)

	<i>1 January 2018</i>	<i>Cash outflow</i>	<i>Others/Cash inflow</i>	<i>31 December 2018</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Loans and borrowings	-	(3,472,222)	42,794,940	39,322,718
Dividends	-	(28,922,724)	28,922,724	-
Total liabilities from financing activities	<u>-</u>	<u>(32,394,946)</u>	<u>71,717,664</u>	<u>39,322,718</u>

Capital management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of 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.

No changes were made in objectives, policies or processes for managing capital during the year ended 31 December 2019

The Company monitors capital on the basis of the regulatory requirements of Regulations for Companies and SAMA minimum capital requirements for financing companies as follows:

	<i>31 December 2019</i>	<i>31 December 2018</i>
	<i>SR</i>	<i>SR</i>
Total liabilities	145,708,505	52,978,705
Less: bank balances and cash	(13,715,010)	(33,355,767)
Net debt	<u>131,993,495</u>	<u>19,622,938</u>
Total equity	271,028,938	276,238,839
Debt to adjusted capital ratio as of 31 December	<u>48.70%</u>	<u>7.10%</u>

28 COMPARATIVE FIGURES

Certain of the prior year numbers have been reclassified to conform with the presentation in the current year.

29 EVENTS AFTER THE REPORTING DATE

No such event that require adjustment or disclosure occurred after the reporting date until the date of authorisation of financial statements as mentioned in note 1.