

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

For the year ended
31 December 2018

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Saudi Riyals)

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Independent Auditors' Report

To the Shareholders of Gulf Lifting Financial Leasing Company

Opinion

We have audited the financial statements of Gulf Lifting Financial Leasing Company ("the Company"), which comprise the statement of financial position as at 31 December 2018, the income statement, statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting for zakat and income tax.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics 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.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Regulations for Companies, 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.

Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditors' 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 auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists.



Independent Auditors' Report

To the Shareholders of Gulf Lifting Financial Leasing Company (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

Misstatements can arise from fraud or error and are considered material if, individually or in 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 judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with Board of Directors 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 of Gulf Lifting Financial Leasing Company ("the Company").

For KPMG AI Fozan & Partners
Certified Public Accountants



Tareq Abdulrahman Al Sunaid

License No: 419

Al Khobar, 22 Jumada Al-Akhirah, 1440H

Corresponding to: 27 February, 2019G

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(Expressed in Saudi Riyals)

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Net investment in finance leases	3	34,367,824	29,936,957
Advance for investment		-	892,850
Investment	4	892,850	-
Intangible asset	5	91,817	748,943
Property and equipment	6	412,347	552,200
Total non-current assets		35,764,838	32,130,950
Current assets			
Cash and bank balances	7	131,237,316	143,987,147
Current maturity of net investment in finance leases	3	19,351,956	12,408,831
Prepayments and other receivables		927,595	1,086,900
Total current assets		151,516,867	157,482,878
TOTAL ASSETS		187,281,705	189,613,828
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	9	100,000,000	100,000,000
Additional equity contribution		90,644,283	90,644,283
Accumulated losses		(7,890,119)	(5,477,645)
TOTAL SHAREHOLDERS' EQUITY		182,754,164	185,166,638
LIABILITIES			
Non-current liabilities			
Employee benefits	10	119,049	140,469
Total non-current liabilities		119,049	140,469
Current liabilities			
Trade payable		143,477	-
Accrued expenses and other liabilities	11	733,596	654,222
Provision for Zakat	12	3,325,529	3,609,429
Due to related parties	8	110,776	43,070
Advance from customers		95,114	-
Total current liabilities		4,408,492	4,306,721
TOTAL LIABILITIES		4,527,541	4,447,190
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		187,281,705	189,613,828

Director

Chief Executive Officer

Finance Manager

The accompanying notes from 1 to 19 form an integral part of these financial statements.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Saudi Riyals)

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
INCOME			
Income from operations			
Finance lease		5,632,669	5,181,521
Other income	13	2,476,235	1,517,822
Total income		8,108,904	6,699,343
EXPENSES			
Salaries and other employee related expenses		(4,222,160)	(4,085,389)
Legal and professional charges		(645,898)	(1,046,236)
Rent and related expenses		(371,525)	(601,713)
Depreciation charge	6	(161,028)	(141,077)
Amortization charge	5	(657,126)	(565,307)
Provision for lease losses	3	(306,513)	(946,756)
Other general and administration expenses		(776,483)	(79,919)
Insurance expense		(96,505)	-
Total expenses		(7,237,238)	(7,466,397)
Income / (loss) for the year		871,666	(767,054)
Earnings / (loss) per share – basic and diluted	14	0.0871	(0.0767)

The accompanying notes from 1 to 19 form an integral part of these financial statements.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Saudi Riyals)

	<u>Note</u>	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Income / (loss) for the year		871,666	(767,054)
Other comprehensive income			
<i>Items that will not be reclassified to income statement in subsequent periods:</i>			
Re-measurement gain on defined benefit plans	10	41,389	-
Other comprehensive income for the year		<u>41,389</u>	<u>-</u>
Total comprehensive income for the year		<u>913,055</u>	<u>(767,054)</u>

The accompanying notes from 1 to 19 form an integral part of these financial statements.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Saudi Riyals)

	<u>Share capital</u>	<u>Additional equity contribution</u>	<u>Accumulated losses</u>	<u>Total</u>
1 January 2017	100,000,000	90,644,283	(1,101,162)	189,543,121
Total comprehensive income for the year	-	-	(767,054)	(767,054)
Zakat for the period – Note 12	-	-	(3,609,429)	(3,609,429)
31 December 2017	<u>100,000,000</u>	<u>90,644,283</u>	<u>(5,477,645)</u>	<u>185,166,638</u>
Total comprehensive income for the year	-	-	913,055	913,055
Zakat for the year - Note 12	-	-	(3,325,529)	(3,325,529)
31 December 2018	<u>100,000,000</u>	<u>90,644,283</u>	<u>(7,890,119)</u>	<u>182,754,164</u>

The accompanying notes from 1 to 19 form an integral part of these financial statements.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Saudi Riyals)

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income / (loss) for the year		871,666	(767,054)
<i>Adjustments for:</i>			
Provision for lease losses	3	306,513	946,756
Amortization	5	657,126	565,307
Depreciation	6	161,028	141,077
Provision for employee benefits	10	135,190	115,039
		<u>2,131,523</u>	<u>1,001,125</u>
Changes in :			
Finance lease receivables		(11,680,505)	20,482,008
Deposit from a vendor		-	(5,051,947)
Due to related parties		67,706	-
Due from related parties		-	2,144,624
Prepayments and other receivables		159,305	(790,507)
Trade payables		143,477	-
Advance from customers		95,114	(294,000)
Accrued expenses		79,374	388,329
Cash (used in) / generated from operating activities		<u>(9,004,006)</u>	<u>17,879,632</u>
Employee benefits paid	10	(115,221)	(32,000)
Zakat paid during the year	12	(3,609,429)	(3,343,320)
Net cash (used in) / generated from operating activities		<u>(12,728,656)</u>	<u>14,504,312</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	6	(21,175)	(204,783)
Acquisition of intangible asset	5	-	(1,314,250)
Advance for investment		-	(892,850)
Net cash used in investing activities		<u>(21,175)</u>	<u>(2,411,883)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(12,749,831)</u>	<u>12,092,429</u>
Cash and cash equivalents at beginning of the year		<u>143,987,147</u>	<u>131,894,718</u>
Cash and cash equivalent at end of the year	7	<u>131,237,316</u>	<u>143,987,147</u>
<u>Non-cash transactions:</u>			
Transfer from capital work in progress to property and equipment	6	-	<u>476,302</u>

The accompanying notes from 1 to 19 form an integral part of these financial statement.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Saudi Riyals)

1. CORPORATE INFORMATION

Gulf Lifting Financial Leasing Company (the “Company”) previously known as “Gulf Lifting Rental Company” is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company is registered in Dammam under commercial registration number 2050030896 dated 19 Shaban, 1416H corresponding to 10 January 1996 and operating under company license number 47/A Sh/201708 dated 14 Dhul Qa’dah 1438H corresponding to 6 August 2017 issued by Saudi Arabian Monetary Agency (“SAMA”).

The Company is engaged in the finance leasing business. The Company is effectively wholly owned by Yusuf Bin Ahmed Kanoo Company Limited.

In 2013, a new Finance Lease Law was enacted in the Kingdom of Saudi Arabia, whereby, only licensed companies are allowed to conduct finance lease business in the Kingdom of Saudi Arabia. Accordingly, the shareholders of the Company (i) filed application with relevant authorities to secure license to conduct finance lease business; (ii) increased the capital of the Company from SR 40 million to SR 100 million as required by the law; and (iii) resolved to transfer all the business activities and related assets and liabilities at carrying amount of operating lease business to a shareholder effective from 1 January 2013. During 2016, the Company received initial approval of the acceptance of application from the Saudi Arabia Monetary Agency (SAMA).

During 2016, the shareholders of the Company resolved to change the name of the Company from Gulf Lifting Rental Company to Gulf Lifting Financial Leasing Company. Further, the Company was converted from limited liability company into a closed joint stock company in accordance with Ministerial Resolution number 287/Q dated 27 Dhu Al Qa’dah 1437H, corresponding to 30 August 2016. The legal formalities associated with the change in name and legal status of the Company were completed during 2016.

In view of the change in legal status, the shareholders also resolved to (i) convert statutory reserve and retained earnings to additional equity contribution at 30 August 2016 amounting to SR 90.65 million and (ii) transfer the assets, liabilities and activities of the company to Closed Joint Stock Company.

The Company has received license from SAMA for practice of finance lease business in Kingdom of Saudi Arabia on to 14 Dhul Qahda 1438H corresponding 6 of August 2017.

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements are prepared by the Company in accordance with ‘International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority (“SAMA”) for the accounting of Zakat and income tax’, which requires, adoption of all IFRSs as issued by the International Accounting Standards Board (“IASB”) except for the application of International Accounting Standard (IAS) 12 - “Income Taxes” and IFRIC 21 - “Levies” so far as these relate to Zakat and income tax. As per the SAMA Circular no. 381000074519 dated 11 April, 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat and income tax (“SAMA Circular”), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

This is the first set of financial statements in which IFRS 15 and IFRS 9 have been applied and changes to significant accounting policies are described in Note 2.5A and 2.5B.

2.2 Basis of measurement

The Company has prepared these financial statements under the historical cost convention on the accrual basis of accounting except for liability for employees’ end of service benefits is recognised at the present value of future obligations using the Projected Unit Credit Method.

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION

2.3 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Saudi Arabian Riyals which is the Company's functional and presentation currency. All financial information presented in Saudi Arabian Riyals has been rounded to the nearest Riyal, unless otherwise mentioned.

2.4 Standards, new pronouncements and interpretations:

a) New International Financial Reporting Standards (IFRS), International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The following are new or amended standards adopted during the year which did not have significant impact on the financial Statements:

- Transfers of Investment Property (Amendments to IAS 40) effective for annual periods on or after 1 January 2018.
- Annual Improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 1 and IAS 28) effective for annual periods on or after 1 January 2018.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration effective for annual periods on or after 1 January 2018.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) effective for annual periods on or after to be determined.
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4).

In addition to the above, IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" are applicable from 1 January 2018. Changes to significant accounting policies are described in Note 2.5.

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

The 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 standards, if applicable, when they become effective.

The Company's management decided not to early adopt the following new and amended standards and interpretations issued which will become effective for the periods commencing after 1 January 2019.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) effective for annual periods on or after to be determined.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Uncertainty over Income Tax Treatments (IFRIC 23).

IFRS 16 – 'Leases'

The IASB published the new standard on leasing, IFRS 16, on 13 January 2016. The rules and definitions of IFRS -16 will replace:

- IAS 17 - 'Leases'
- IFRIC 4 - 'Whether an arrangement contains a lease'
- SIC 15 - 'Operating leases – Incentives'
- SIC 27 - 'Evaluating the substance of transactions involving the legal form of a lease'

The standard requires an accounting model for a lessee that recognizes all assets and liabilities from leasing agreements in the balance sheet, unless the term is twelve months or less or the underlying asset is of low value. As for the lessor, the new standard substantially carries forward the lessor accounting requirement of IAS 17 Leases.

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.4 Standards, new pronouncements and interpretations (continued):

The new standard will be effective for annual periods beginning on or after 1 January 2019, early application is permitted and must be disclosed. The Company will adopt the new standard on the effective date. The Company is currently assessing the impact on the Company's financial statements.

2.5 Changes in accounting policies due to adoption of new standards:

The Company has adopted IFRS 15 "Revenue from Contracts with Customers" (see A) and IFRS 9 Financial Instruments (see B) from 1 January 2018. A number of other new interpretation and amendments are effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

A. IFRS – 15 Revenue from contracts with customers

The International Accounting Standards Board (IASB) published the new standard on revenue recognition, IFRS 15 "Revenue from contracts with customer" on 28 May 2014. The rules and definitions of IFRS 15 supersede the contents of IAS 11 "Construction Contracts", IAS 18 "Revenue" and IFRIC 13 "Customer Loyalty Programs". The revised standard particularly aims to standardize existing regulations and thus improve transparency and the comparability of financial information. The change became effective to the Company from 1 January 2018. The Company has adopted IFRS 15 using the cumulative effect method, with the effect of applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for previous period has not been restated, as previously reported, under IAS 18 and related interpretations.

IFRS - 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customer. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized when the entity satisfies a performance obligation by transferring promised goods or services to a customer. An asset is transferred when control is transferred that is either over time or at a point in time.

The Company recognises the revenue for finance lease services as per IAS 17. Consequently, there are no material and reportable changes due to its transition to IFRS 15.

B. Financial instruments

On 24 July 2014, IASB issued the final version of IFRS 9, concluding the multi-year project to replace IAS 39 – Financial Instruments "Recognition and Measurement". IFRS 9 contains new requirements for the classification and measurement of financial instruments, fundamental changes regarding the accounting treatment of financial assets impairment and a reformed approach to hedge accounting. The changes became effective to the Company from 1 January 2018. The adoption of IFRS 9 does not have a significant effect on the Company's accounting policies related to financial liabilities.

Initial recognition and 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. The Company applies the classification and measurement requirements for financial instruments under IFRS 9 'Financial Instruments' for the period ended 31 December 2018.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

i. Classification and subsequent measurement

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL). The classification depends on the Company's business model for managing financial assets and the contractual terms of the financial assets cash flows.

The Company classifies its financial assets as those to be measured subsequently at amortised cost if they meet the following criteria:

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.5. Changes in accounting policies due to adoption of new standards (continued)

B. Financial instruments (Continued)

Financial assets (Continued)

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Finance income and impairment are recognised in income statement. Any gain or loss on derecognition is recognized in income statement.

The Company does not have any financial assets classified under fair value through profit or loss (FVTPL).

ii. Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The Company recognizes a loss allowance for expected credit losses (“ECL”) for financial assets measured at amortised cost. The ECL is recognized either for lifetime or for 12 months. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer’s ability to meet its obligations
- Actual or expected significant changes in the operating results of the customer
- Significant increases in credit risk on other financial instruments of the same customer
- Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of customers and changes in the operating results of the customer
- Macroeconomic information (such as market interest rates or growth rates)
- Past due information adjusted for future information

Regardless of the analysis above, a significant increase in credit risk is presumed if a receivable is more than 90 days past due in making a contractual payment, unless the Company has reasonable and supportable information that demonstrates otherwise.

The Company has adopted the simplified approach as allowed by IFRS 9 and measures the loss allowance at an amount equal to lifetime expected credit losses for all finance lease receivables that result from contracts with the customers. The Company determines the expected credit losses on finance lease receivable by using a provision matrix, estimated using historical credit loss experience based on the past due status of the finance lease receivables, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.5 Changes in accounting policies due to adoption of new standards (continued)

B. Financial instruments (Continued)

ii. Impairment of financial assets (Continued)

Objective evidence that financial assets are impaired can include significant financial difficulty, default or delinquency of the counterparty, restructuring of amounts due on terms that the Company would not otherwise consider, indications that a customer will enter bankruptcy, or other observable data relating to customers such as adverse changes in the economic conditions that correlate with defaults by the customers.

The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial instruments found not to be specifically impaired are then collectively (with similar risk characteristics) assessed for any impairment that has been incurred but not yet identified.

Impairment losses for a financial instrument are recognized in the income statement and reflected in impairment for credit losses. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

When an asset is uncollectible, it is written-off against the related provision. Such assets are written-off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the provision. The amount of the reversal is recognized in the income statement.

iii. Derecognition

The Company derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest or residual interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. A financial liability is derecognized from the statement of financial position when the Company has discharged its obligation or the contract is cancelled or expires.

Financial liabilities

i. Classification and subsequent measurement of financial liabilities

The Company classifies its financial liabilities as those to be measured subsequently at amortised cost using the effective interest method, if they are not:

- contingent consideration of an acquirer in a business combination,
- held-for-trading, or
- designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The Company does not classify any of its financial liabilities under 'fair value through profit or loss (FVTPL)'.

ii. Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in income statement.

iii. Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Company has a legally enforceable right to offset the amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Saudi Riyals)

2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.5 Changes in accounting policies due to adoption of new standards (Continued)

B. Financial instruments (Continued)

Financial liabilities (Continued)

Transition

The effect of adopting IFRS 9 on the carrying amounts of financial assets and financial liabilities at 1 January 2018 relates solely to the new impairment requirements and investment classification, as described further below. The following table below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the class of the Company's financial assets as at 1 January 2018.

Financial instruments	Original classification under IAS 39	New Classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Finance lease receivable	Loans and receivables measured at amortised cost	Amortised cost	42,345,788	42,345,788
Advance for investments	Loans and receivables measured at amortised cost	Amortised cost	892,850	892,850
Bank balances	Loans and receivables measured at amortised cost	Amortised cost	143,972,147	143,972,147

Finance lease receivable that were classified as loans and receivables under IAS 39 are now classified at amortised cost. The impact on the allowance for impairment over these receivables was not recognised in the opening retained earnings at 1 January 2018 on transition to IFRS 9 as the amount was not material.

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2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.6 Accounting policies

Following accounting policies have been applied in preparation of these financial statements. These policies have been applied consistently for all period presented.

2.6.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Capital work in progress is stated at cost less impairment losses, if any, and is not depreciated until the asset is brought into commercial operations and available for intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Cost incurred to replace a component of an item of property and equipment is capitalized and the asset so replaced is retired from use. All other repairs and maintenance expenditure are charged to the income statement during the period in which they are incurred.

Depreciation is calculated using the straight line method over its estimated useful life of the assets as mentioned below, after taking into account their respective residual value.

	<u>Number of years</u>
Leasehold improvements	5
Office furniture and fixtures	5-7
Information technology equipment	4

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

The assets residual values, useful life and methods are reviewed and adjusted, if appropriate, at each reporting date.

2.6.2 Intangible assets

Intangible assets, including Enterprise Resources Planning ("ERP") software acquired by the Company and have finite useful life are measured at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated to write-off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful life, and is generally recognized in income statement.

Amortization methods, useful life and residual values are reviewed at each reporting date and adjusted if appropriate.

2.6.3 Net investment in finance leases

Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Finance leases are recorded at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Gross investment in finance leases include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases. The Company takes down payments on leases with the right to set off against the residual value of leased assets and for presentation purposes, these down payments along with prepaid lease rentals are deducted from gross investment in finance leases.

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2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.6 Accounting policies (Continued)

2.6.4 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and 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. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimates.

Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

2.6.5 Zakat

Zakat is provided on accrual basis in accordance with the Regulations of the General Authority of Zakat and Income Tax (the "GAZT") in the Kingdom of Saudi Arabia and on accrual basis. Zakat is charged to the statement of changes in shareholders' equity.

2.6.6 Expenses

Expenses are recognized in the income statement when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over the accounting period. Expenses are analysed based on their nature.

2.6.7 Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

i) Financial assets

Initial recognition and measurement

On initial recognition, a financial asset is classified and measured at amortized cost, FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

a) Financial assets at amortized cost

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

The financial instruments not measured at fair value are short-term financial assets and financial liabilities whose carrying amounts are a reasonable approximation of fair value.

Cash and cash equivalents include cash in hand, deposits with banks and other short term investments in an active market with original maturities of three months or less.

The Company classify cash and cash equivalents, finance lease receivables and other receivables as financial assets at amortized cost.

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2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.6 Accounting policies (Continued)

2.6.7 Financial instruments (continued)

b) *Financial assets at fair value through other comprehensive income (“FVOCI”)*

A financial asset is measured at fair value through FVOCI only if it meets both of the following conditions and is not designated as at FVTPL.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principle and profit on the principle amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. The Company does not have any financial assets that are designated at fair value through other comprehensive income (FVOCI).

c) *Financial assets at fair value through profit or loss (“FVTPL”)*

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

Transfer of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for the purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

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2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.6 Accounting policies (Continued)

2.6.7 Financial instruments (continued)

Business model assessment (Continued)

If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly purchased financial assets going forward.

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

Assessment whether contractual cash flows are solely payments of principal and interest

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers;

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

ii) Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in income statement. Other financial liabilities (including loans and borrowings and accounts and other payables) are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange losses are recognized in income statement. Any gain or loss on derecognition is also recognized in income statement.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

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2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.6 Accounting policies (Continued)

2.6.7 Financial instruments (continued)

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

When available, the Company measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Company measures instruments quoted in an active market as per the official closing price in the related stock exchange where the instrument is traded.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Company recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flow from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of the financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognized) and the consideration received (including any new asset obtained less any new liability assumed) is recognized in income statement. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial liability

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized on fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non- cash assets transferred or liabilities assumed) is recognized in income statement.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gain and losses from financial instruments at FVTPL and foreign exchange gains and losses.

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2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.6 Accounting policies (Continued)

2.6.7 Financial instruments (continued)

iii) Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model with an 'expected credit loss' model (ECL). IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Under IFRS 9, credit losses are recognized earlier than under previous accounting standard.

The Company applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for finance lease receivables.

To measure the expected credit losses, finance lease receivables have been grouped based on shared credit risk characteristics and the days past due.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating the ECL's, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward- looking information.

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

- the borrower is unlikely to pay its credit obligation to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is 90 days or more past due.

Life time ECLs are the ECLs that result from default events over the expected life of a financial instrument. The Maximum credit period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of Expected Credit Losses:

ECLs are a probability – weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i-e the difference between the cash flows due to the entity in accordance with the contract and cash flows that the company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

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

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

- due to significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a finance lease receivable by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.6 Accounting policies (Continued)

2.6.7 Financial instruments (continued)

iii) Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI (If any), the loss allowance is charged to income statement and is recognized in statement of profit or loss and other comprehensive income.

Write off:

The company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is sufficient evaluation that collection will not be possible, for example when counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in income statement.

2.6.8 Impairment of Non-financial assets:

At each reporting date, the company reviews the carrying amounts of its non- financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into smallest group of assets that generated cash inflows from continuing use that are largely independent of cash inflows of other assets.

The recoverable amount of an asset is greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre- tax discount rate based on the estimated future cash flows, discounted their present value using a pre-tax discount rate the reflects current market assessment of the time value of money and the risks specific to the assets.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized in income statement. They are allocated first to reduce the carrying amount of any goodwill (If any), and then reduce the carrying amount of other assets on pro rata basis. An impairment loss in respect of goodwill is not reversed, for other assets, an impairment less is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

2.6.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks including investments with original maturity of less than three months from the contract date. The statement of cash flows is prepared using indirect method.

2.6.10 Proposed dividend and transfer between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the statement of financial position date are considered as non-adjusting events and are recorded in the financial statements in the year in which they are approved and transfers are made.

2.6.11 Revenue recognition-Finance leases

For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the income statement.

Service fees charged in respect of processing and other services are recognized as income when the right to invoice is established on the completion of the performance obligation.

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2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.6 Accounting policies (Continued)

2.6.12 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 capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of special commission expense and other costs that the Company incurs in connection with the borrowing of funds.

2.6.13 Statutory reserve

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the period should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve totals 30% of the capital.

2.6.14 Employee benefits

i) Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. Employees' end-of-service benefits liabilities

The Company operates a non-funded employee end-of-service benefit plan, which is classified as defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. Actuarial gains and losses are recognized in full in the period in which they occur in income statement and statement of profit or loss and other comprehensive income. Such actuarial gains and losses are not reclassified to income statement in subsequent periods.

Past service costs are recognized in income statement on the earlier of:

- The date of the plan amendment or curtailment; and
- The date on which the Company recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability. The Company recognizes the following changes in the net defined benefit obligation under 'salaries and related expenses' and 'finance cost' in the income statement:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

The defined benefit liability comprises the present value of the defined benefit obligation, less past service costs.

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2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.7 Significant accounting judgments, estimates and assumptions

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities for the year ended 31 December 2018 includes:

i. Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost. The Company measures loss allowances at an amount equal to lifetime ECL.

Loss allowances for lease receivable and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is 90 days or more past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ii. Employees' end of service benefits

The cost of end of service defined benefit and the present value of the related obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, withdrawal before normal retirement age, mortality rates etc. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, yield and duration of Saudi government bonds obligation with at least an 'A' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

Age-wise "High" withdrawal rates are used in carrying out the valuation. These age-wise withdrawal rates are generally used in the MENA region to carry out the actuarial valuation of end of service benefit Schemes of companies.

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2. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND BASIS OF PREPARATION (Continued)

2.7 Significant accounting judgments, estimates and assumptions (Continued)

ii. Employees' end of service benefits (continued)

The rates assumed are based on the WHO 15 Ultimate mortality tables, rated down one year. In the absence of any standard mortality tables in the region, these rates are generally used in Kingdom of Saudi Arabia in carrying out the actuarial valuation of EOSB Schemes. If any other mortality table is used it will not make any significant difference in the results.

iii. Useful lives of property and equipment and intangible assets

Management determines the estimated useful lives of property and equipment and intangible assets for calculating depreciation and amortisation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges and amortisation charges, if any, are adjusted in current and future periods.

iv. Measurement of fair values

Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

v. Zakat

The Company is subject to Zakat in accordance with the General Authority of Zakat and Income Tax ("GAZT") regulations. Zakat computation involves relevant knowledge and judgment of the Zakat rules and regulations to assess the impact of Zakat liability at a particular period end. This liability is considered an estimate until the final assessment by GAZT is carried out until which the Group retains exposure to additional Zakat liability.

vi. Impairment of Non-financial assets:

At each reporting date, the company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into smallest group of assets that generated cash inflows from continuing use that are largely independent of cash inflows of other assets.

The recoverable amount of an asset is greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate based on the estimated future cash flows, discounted their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

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3. NET INVESTMENT IN FINANCE LEASES

	<u>31 December 2018</u>	<u>31 December 2017</u>
Gross investment in finance lease	67,164,350	52,995,131
Less: Unearned lease finance income	(11,979,661)	(9,490,947)
Net investment in finance leases	55,184,689	43,504,184
Provision for lease losses	(1,464,909)	(1,158,396)
	53,719,780	42,345,788
Current maturity	(19,351,956)	(12,408,831)
	34,367,824	29,936,957

3.1 The movement in the provision for lease losses was as follows:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Balance at the beginning of the year	1,158,396	211,640
Allowance for the year	306,513	946,756
Balance at the end of the year	1,464,909	1,158,396

3.3 The maturity of the gross investment in finance leases as at 31 December 2018 is as follows:

	<u>Gross investment in finance leases</u>	<u>Unearned lease finance income</u>	<u>Net investment in finance leases</u>
Not later than one year	25,087,737	(5,735,781)	19,351,956
Later than one year but not later than five years	42,076,613	(6,243,880)	35,832,733
	67,164,350	(11,979,661)	55,184,689

The maturity of the gross investment in finance leases as at 31 December 2017 is as follows:

	<u>Gross investment in finance leases</u>	<u>Unearned lease finance income</u>	<u>Net investment in finance leases</u>
Not later than one year	16,938,081	(4,408,734)	12,529,347
Later than one year but not later than five years	36,057,050	(5,082,213)	30,974,837
	52,995,131	(9,490,947)	43,504,184

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4. INVESTMENT:

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** in December 2017. The amount was classified as advance for the investment. During the period, the Company has received **89,285 shares** (2% of total shares) and classified the investment as fair value through other comprehensive income (FVOCI).

5. INTANGIBLE ASSET:

Intangible asset represents license for Orion ERP.

	<u>31 December 2018</u>	<u>31 December 2017</u>
<u>Cost:</u>		
1 January	1,314,250	-
Additions	-	1,314,250
31 December	<u>1,314,250</u>	<u>1,314,250</u>
<u>Accumulated amortization:</u>		
1 January	565,307	-
Charge for the year	657,126	565,307
31 December	<u>1,222,433</u>	<u>565,307</u>
<u>Net book value:</u>		
31 December 2018	<u>91,817</u>	<u>748,943</u>

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6. PROPERTY AND EQUIPMENT:

<u>Cost:</u>	<u>Leasehold improvements</u>	<u>Office furniture and fixtures</u>	<u>Information technology equipment</u>	<u>Capital work in progress</u>	<u>Total</u>
1 January 2017	-	-	-	488,494	488,494
Additions	43,265	19,600	154,110	-	216,975
Transferred from capital work in progress	185,532	142,895	147,875	-	476,302
Transferred to property and equipment	-	-	-	(476,302)	(476,302)
Written off during the year	-	-	-	(12,192)	(12,192)
31 December 2017	<u>228,797</u>	<u>162,495</u>	<u>301,985</u>	<u>-</u>	<u>693,277</u>
1 January 2018	<u>228,797</u>	<u>162,495</u>	<u>301,985</u>	<u>-</u>	<u>693,277</u>
Additions	-	-	21,175	-	21,175
31 December 2018	<u>228,797</u>	<u>162,495</u>	<u>323,160</u>	<u>-</u>	<u>714,452</u>
<u>Accumulated depreciation:</u>					
1 January 2017	-	-	-	-	-
Charge for the year	54,785	20,357	65,935	-	141,077
31 December 2017	<u>54,785</u>	<u>20,357</u>	<u>65,935</u>	<u>-</u>	<u>141,077</u>
1 January 2018	<u>54,785</u>	<u>20,357</u>	<u>65,935</u>	<u>-</u>	<u>141,077</u>
Charge for the year	58,087	23,212	79,729	-	161,028
31 December 2018	<u>112,872</u>	<u>43,569</u>	<u>145,664</u>	<u>-</u>	<u>302,105</u>
<u>Net book value:</u>					
31 December 2018	<u>115,925</u>	<u>118,926</u>	<u>177,496</u>	<u>-</u>	<u>412,347</u>
31 December 2017	<u>174,012</u>	<u>142,138</u>	<u>236,050</u>	<u>-</u>	<u>552,200</u>

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7. CASH AND BANK BALANCES

	<u>31 December 2018</u>	<u>31 December 2017</u>
Cash in hand	9,887	15,000
Cash at bank	1,266,970	2,068,333
Short term deposits	129,960,459	141,903,814
	<u>131,237,316</u>	<u>143,987,147</u>

Short term bank deposits are denominated in Saudi Riyals and United States Dollars with local banks and are made for varying periods from 1 month to 3 month and carry interest rates ranging from 1.7% to 2.8% per annum (2017: 1% to 1.4%).

8. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represented shareholder, directors and key management personnel of the Company, and entity controlled or significantly influenced by such parties:

The Company is required to pay remuneration to the members of Board of Directors, under Bye-Laws, for participation in Board of Director's meeting held during the period, all the directors have waived their right to receive the remuneration.

Prices and terms of payment with related are approved by the management. Amount due from/to a shareholder are disclosed in the statement of financial position.

Transactions with related party:

	<u>For the year ended 31 December 2018</u>	<u>For the year ended 31 December 2017</u>
Yusuf Bin Ahmed Kanoo Company Limited – a shareholder		
Expenses paid on behalf of the Company	19,837	7,701,248
Collections made on behalf of the Company	6,971,683	20,686,000
Zakat paid on behalf of the Company	-	3,343,320
Assets purchased on behalf of the Company	-	1,529,969
Purchases made during the year	2,672,672	-
Advance paid for investment on behalf of the company	-	892,850
AXA Cooperative Insurance Company – other related party		
Services received for Insurance	185,078	-

Key management personnel compensation comprised of the following transactions:

	<u>31 December 2018</u>	<u>31 December 2017</u>
<u>Transactions:</u>		
Compensation of key management executives	819,937	780,000
Audit committee remuneration	279,800	-

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8. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

The above mentioned significant transactions with related parties resulted in the following balances:

Due to related party:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Yusuf Bin Ahmed Kanoo Company Limited	107,899	43,070
AXA Cooperative Insurance Company	2,877	-
	<u>110,776</u>	<u>43,070</u>

9. SHARE CAPITAL

The pattern of shareholding as of 31 December 2018 and 31 December 2017 is as follows:

	<u>Percentage of ownership</u>	<u>Number of Shares</u>	<u>Amount SR</u>
Yusuf Bin Ahmed Kanoo Company Limited	94	9,400,000	94,000,000
Ali Abdulla Kanoo	1	100,000	1,000,000
Ali Abdulaziz Kanoo	1	100,000	1,000,000
Saud Abdulaziz Kanoo	1	100,000	1,000,000
Bader Abdulaziz Kanoo	1	100,000	1,000,000
Faisal Khalid Kanoo	1	100,000	1,000,000
Ahmed Fawzi Kanoo	1	100,000	1,000,000
	<u>100</u>	<u>10,000,000</u>	<u>100,000,000</u>

10. EMPLOYEES' END OF SERVICE BENEFITS

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its defined benefit obligations in respect of employees' end of service benefits payable under relevant local regulations and contractual arrangements. Up to the last year, the Company recognized this liability without conducting actuarial valuation as the management believed that the impact will not be material. However, during the year the Company carried out actuarial valuation for the year ended 2017 and 2018 through an external expert. Consequently, additional charge for prior year amounting to SR 15,925 determined by actuarial valuation was not considered significant by management and has been recognized during the year. Accordingly, the Company has not restated the comparative balance for this amount.

The Company recognized the benefits in the income statement. The benefit is based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The following table summarizes the components of the net benefit expense recognized in the income statement and statement of profit or loss and other comprehensive income and amounts recognized in the statement of financial position.

Net benefit expense recognised in income statement:

	<u>For the year ended 31 December 2018</u>
Current service cost	128,425
Interest cost on benefit obligation	6,765
	<u>135,190</u>

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10. EMPLOYEES' END OF SERVICE BENEFITS (Continued)

Net benefit expense recognised in other comprehensive income:

	For the year ended 31 December 2018
Re-measurement gains and losses on obligation	
Loss / (gain) due to change in demographic assumptions	41
(Gain) / loss due to change in experience adjustments	(41,430)
	<u>(41,389)</u>

Movement in the present value of defined benefit obligation:

	31 December 2018	31 December 2017
Balance at 1 January	140,469	57,430
Current service cost / charge for the year	128,425	115,039
Interest cost	6,765	-
Benefits paid during the year	(115,221)	(32,000)
Actuarial gain on the obligation	(41,389)	-
Balance at 31 December	<u>119,049</u>	<u>140,469</u>

Significant assumptions used in determining the post-employment defined benefit obligation includes the following:

	2018
Discount rate	4.05%
Salary increase rate short term	4.05%
Mortality rates	WHO SA16 -75%
Rates of employee turnover	High

A quantitative sensitivity analysis for discount rate assumption on the defined benefit obligation as at 31 December 2018 is shown below:

<u>Assumptions</u>	<u>Defined benefit obligation as at 2018</u>	
	<u>0.5% Increase</u>	<u>0.5% Decrease</u>
Sensitivity analysis		
- Discount rate	114,592	123,817
- Salary increase rate	123,794	114,571

The sensitivity analyses above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The average duration of the defined benefit obligation at the end of the reporting period is 7.74 years.

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11. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Accrued expenses	416,612	180,200
Other payables	316,984	474,022
	<u>733,596</u>	<u>654,222</u>

12. ZAKAT

a) Charge for the year

i) Zakat charge for the year ended 31 December comprises of the following:

	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Charge for the year	<u>3,325,529</u>	<u>3,609,429</u>

ii) The significant components of Zakat base for the Company are as follows:

	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Shareholders' equity	186,465,503	190,644,283
Other adjustments	(56,581,703)	(46,990,603)
	<u>129,883,800</u>	<u>143,653,680</u>
Adjusted profit for the year	<u>1,601,687</u>	<u>723,475</u>
Zakat base	<u>131,485,487</u>	<u>144,377,155</u>

Significant components of Zakat base of the Company principally comprise of shareholders' equity at the beginning of the year, adjusted net income and certain other items. Some of these amounts have been adjusted in arriving at Zakat charge for the year

b) Provision for Zakat

The movement in provision for Zakat during the year is as follows:

	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Balance at beginning of the year	3,609,429	3,343,320
Add: Charge for the year	3,325,529	3,609,429
Less: Payments during the year	(3,609,429)	(3,343,320)
Balance at end of the year	<u>3,325,529</u>	<u>3,609,429</u>

Zakat for the year is payable at 2.5% of higher of the approximate Zakat base and adjusted net income attributable to the shareholders.

c) Status of assessments

The Company has submitted its Zakat declarations with the General Authority of Zakat and Tax (GAZT) up to the year 2016. The Company has obtained its Zakat certificate for the year ended December 31, 2017, which is valid up to 30 April 2019.

Provision for Zakat

Provision for Zakat has been made at 2.5% of approximate Zakat base attributable to the Saudi shareholders of the Company.

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13. OTHER INCOME

Other income represents the interest income on short term deposits amounting to SR 2,476,235 (2017: SR 1,517,822).

14. BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted earnings per share is calculated by dividing the income / (loss) for the year attributable to the shareholders by weighted average number of shares at the end of the year.

<i>Basic and diluted earnings / (loss) per share:</i>	<u>2018</u>	<u>2017</u>
Net income / (loss) for the year	<u>871,666</u>	<u>(767,054)</u>
<i>Weighted average number of outstanding shares</i>		
Number of shares	<u>10,000,000</u>	<u>10,000,000</u>
Basic and diluted earnings / (loss) per share	<u>0.0871</u>	<u>(0.0767)</u>

15. OPERATING LEASE AGREEMENTS

Operating lease payments represent rental payable by the Company for its premises for a period from 1 to 5 years. Expense recognized for the year ended 31 December, and commitments for minimum lease payments under non-cancelable operating leases are as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Payments under operating lease recognized as expense during the year	<u>225,000</u>	<u>240,000</u>
	<u>2018</u>	<u>2017</u>
Within one year	<u>225,000</u>	<u>225,000</u>
Between two and five years	<u>-</u>	<u>225,000</u>

16. CONTINGENCIES AND COMMITMENT

The Company has no commitments and contingent liabilities as at 31 December 2018 (2017: Nil).

17. FINANCIAL RISK MANAGEMENT

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

Risk management structure

Board of Directors

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

Audit Committee

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

Internal Audit

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

Risk Committee

Board of Directors of the Company has established a risk committee. The primary responsibility of the risk committee is to oversee and approve the company-wide risk management practices to assist the board in overseeing risks, such as financial, credit, market, liquidity, security, legal, regulatory, reputational, and other risks.

The risks faced by the Company and the way these risks are mitigated by management are summarized below.

17.1 **Market risk**

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

Market risk comprises of two types of risk: currency risk and other price risk.

a) **Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial assets may fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried in Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations as the majority of the monetary assets and liabilities are in Saudi Riyals or currencies which are pegged to the Saudi Riyal and consequently the Company does not hedge its foreign currency exposure.

b) **Other price risk**

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

c) **Special commission rate risk**

The special commission rate risk is the risk that the value of the financial instrument may fluctuate due to changes in the market interest rates. As the Company's financial instruments are interest at fixed rates, the Company is not subject to special commission rate risk.

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17. FINANCIAL RISK MANAGEMENT (Continued)

17.2 Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and 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 collateral such as down payments and personal guarantees. Individual lease contracts generally are for terms not exceeding sixty-months.

The credit risks on gross amounts due in relation to the investment in finance leases is mitigated by the retention of title on leased assets and down payments.

	<u>31 December 2018</u>	<u>31 December 2017</u>
Net investment in finance leases	53,719,780	42,345,788
Other receivables	396,228	273,203
Cash at bank	131,227,429	143,972,147
Advance for investment	-	892,850
	<u>185,343,437</u>	<u>187,483,988</u>

a) Net investment in finance leases

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

The Company follows a credit classification mechanism, primarily driven by day's delinquency as a tool to manage the quality of credit risk of the lease portfolio. Further the company has categorized its lease receivables into four sub categories on the basis of similar credit risk characteristics. Exposures within each credit risk category are segmented by industrial classification and an ECL rate 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 receivables.

Scalar factors are based on the country specific risk 0.98% and industry specific risk 0.5%.

Expected credit loss assessment for the lease receivables as at 31 December 2018:

31 December 2018	Weighted average loss rate	Gross carrying amounts	Impairment loss allowance	Credit impaired
Corporate	1.48%	34,323,261	507,984	NO
Medium enterprise	1.48%	7,432,028	109,994	NO
Micro finance	1.48%	380,074	5,625	NO
Small enterprises	3.33%	12,628,311	420,291	NO
Credit impaired balances	100%	421,015	421,015	YES
Total		<u>55,184,689</u>	<u>1,464,909</u>	

The Company as at 31 December 2018 has impairment loss allowance of SR 1.4 million (2017: SR 1.2 million). In addition, finance lease receivables are secured against leased assets.

The credit quality of Company's bank balances are assessed with reference to external credit worthiness which all are above investment grade rating.

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17. FINANCIAL RISK MANAGEMENT (Continued)

17.2 Credit risk (Continued)

b) Geographical segment analysis

The Company's operations are restricted to Kingdom of Saudi Arabia only.

c) Collateral held as security and other credit enhancements

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risk associated with the net investment in finance lease, is mitigated because the net investment in finance lease is secured against leased assets.

d) Bank balances and other receivables

Funds are placed with banks having good credit ratings and therefore are not subject to significant credit risk. Other receivables are neither significant nor exposed to significant credit risk.

e) Concentration risk

Concentrations of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company manages its credit risk exposure through diversification of leasing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

17.3 Liquidity risk

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

The contractual maturities of liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Company's availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The table below summarizes the maturity profile of the Company's liabilities based on contractual undiscounted cash flows:

31 December 2018	Within 3 months SR	3 to 12 Months SR	1 to 5 years SR	No fixed maturity SR	Total SR
<u>Liabilities</u>					
Trade payables	143,477	-	-	-	143,477
Accrued expenses and other liabilities	539,602	193,994	-	-	733,596
Due to related parties	110,776	-	-	-	110,776
	<u>793,855</u>	<u>193,993</u>			<u>987,849</u>

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17. FINANCIAL RISK MANAGEMENT (Continued)

17.3 Liquidity risk (Continued)

31 December 2017	Within 3 months SR	3 to 12 Months SR	1 to 5 years SR	No fixed maturity SR	Total SR
<u>Liabilities</u>					
Accrued expenses and other liabilities	180,200	474,022	-	-	654,222
Due to a related party	43,070	-	-	-	43,070
	<u>223,270</u>	<u>474,022</u>	<u>-</u>	<u>-</u>	<u>697,292</u>

17.4 Capital risk management

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the sustained development of its business. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions.

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2018.

17.5 Fair values of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The Company's financial assets consist of cash and cash equivalents, short-term deposits, finance lease receivables, due from a related party, available-for-sale investments and its financial liabilities consist of accrued expenses and other liabilities and, due to a related party.

The fair values of financial assets and liabilities are not materially different from their carrying values at the reporting date.

The Company uses the following hierarchy for determining and disclosing the fair value of financial assets:

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the financial statements as at 31 December 2018.

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17.5 Fair values of financial assets and financial liabilities (Continued)

	Carrying Amount				Fair Value				
	Financial assets at amortised cost	Mandatory at FVTPL	FVOCI – equity investments	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
December 31, 2018									
Financial assets									
Finance lease receivable	53,719,780	-	-	-	53,719,780	-	-	-	-
Other current assets	396,228	-	-	-	396,228	-	-	-	-
Cash and bank balances	131,227,429	-	-	-	131,227,429	-	-	-	-
Investment	-	-	892,850	-	892,850	-	-	892,850	892,850
Total financial assets	185,343,437	-	892,850	-	186,236,287	-	-	892,850	892,850
Financial liabilities									
Trade payables	-	-	-	143,477	143,477	-	-	-	-
Accrued expenses and other liabilities	-	-	-	733,596	733,596	-	-	-	-
Due to related parties	-	-	-	110,776	110,776	-	-	-	-
Total financial liabilities	-	-	-	987,849	987,849	-	-	-	-
	Carrying Amount				Fair value				
	Loans and receivables	Held at fair value through profit and loss	Financial assets at amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
December 31, 2017									
Financial assets and liabilities									
<i>Financial assets</i>									
Finance lease receivable	42,345,788	-	-	-	42,345,788	-	-	-	-
Other current assets	273,203	-	-	-	273,203	-	-	-	-
Cash and bank balances	143,972,147	-	-	-	143,972,147	-	-	-	-
Advance for investment	892,850	-	-	-	892,850	-	-	-	-
Total financial assets	188,483,988	-	-	-	188,483,988	-	-	-	-
<i>Financial liabilities</i>									
Accrued expenses and other liabilities	-	-	-	654,222	654,222	-	-	-	-
Due to a related party	-	-	-	43,070	43,070	-	-	-	-
Total financial liabilities	-	-	-	697,292	697,292	-	-	-	-

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(Expressed in Saudi Riyals)

18. POST BALANCE SHEET EVENTS

No adjusting event occurred at the date of authorization of financial statements by Board of Directors which may have impact on these financial statement.

19. DATE OF APPROVAL

These financial statements were approved by the Board of Directors on 22 Jumada Al-Akhirah, 1440H corresponding to 27 February 2019G.