Alraedah Finance Company

(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT

FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2019

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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF ALRAEDAH FINANCE COMPANY (A SAUDI CLOSED JOINT STOCK COMPANY)

Introduction:

We have reviewed the accompanying interim statement of financial position of Alraedah Finance Company - A Saudi Closed Joint Stock Company (the "Company") as at 31 March 2019 and the related interim statements of comprehensive income, changes in shareholders' equity and cash flows for the three month period then ended and explanatory notes (the "interim condensed financial statements"). Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review:

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

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" as modified by SAMA for the accounting of zakat and income tax.

for Ernst & Young

Yousef A. AlMubarak
Certified Public Accountant
License No. (427)

Riyadh: 23 Sha'aban 1440H
(28 April 2019)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three month period ended 31 March 2019

	Notes	***2019 (Unaudited) SR***	*2018 (Unaudited) SR*
OPERATING INCOME			
Special commission income from Ijara and Murabaha contracts		**12,557,137**	7,290,854
Finance charges		**(3,437,339)**	(872,245)
		9,119,798	6,418,609
Application fees and other income		**500,023**	883,842
TOTAL OPERATING INCOME, NET		**9,619,821**	7,302,451
OPERATING EXPENSES			
General and administrative expenses	4	**(3,943,761)**	(3,521,815)
Selling and marketing expenses	5	**(925,483)**	(1,020,665)
Impairment loss on assets acquired in satisfaction of claims	7(g)	**-**	(1,328,300)
Impairment loss on Ijara and Murabaha receivables	7(b)	**(448,793)**	(574,747)
Depreciation and amortisation		**(462,749)**	(311,267)
NET PROFIT FOR THE PERIOD		**3,839,035**	545,657
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		**3,839,035**	545,657

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

Alraedah Finance Company
(A Saudi Closed Joint Stock Company)

INTERIM STATEMENT OF FINANCIAL POSITION
As at 31 March 2019

	Notes	*31 March 2019 (Unaudited) SR*	*31 December 2018 (Audited) SR*
ASSETS			
Bank balances and cash		**8,583,672**	52,688,909
Restricted cash deposits		**2,988,206**	3,208,077
Prepayments and other assets		**6,239,882**	4,461,492
Ijara and Murabaha receivables	7(a)	**271,297,029**	193,595,470
Property and equipment		**559,351**	643,567
Right-of-use assets	14	**3,527,725**	-
Intangible assets		**630,142**	672,143
TOTAL ASSETS		**293,826,007**	255,269,658
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable and accruals		**21,168,317**	16,638,429
Zakat payable	6	**4,184,941**	3,869,766
Lease liability	14	**2,980,990**	-
Borrowings	9	**92,978,129**	65,822,612
Employees' terminal benefits		**1,065,000**	945,352
TOTAL LIABILITIES		**122,377,377**	87,276,159
SHAREHOLDERS' EQUITY			
Share capital	8	**150,000,000**	150,000,000
Statutory reserve		**1,802,058**	1,418,154
Retained earnings		**19,646,572**	16,575,345
TOTAL SHAREHOLDERS' EQUITY		**171,448,630**	167,993,499
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**293,826,007**	255,269,658

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

Alraedah Finance Company
(A Saudi Closed Joint Stock Company)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the three month period ended 31 March 2019

	Share capital *SR*	*Statutory reserve* *SR*	*Retained earnings* *SR*	*Total* *SR*
Three month period ended 31 March 2018				
Balance as at 1 January 2018	150,000,000	1,415,652	5,785,948	157,201,600
Net profit for the period	-	-	545,657	545,657
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	545,657	545,657
Zakat for the period (note 6)	-	-	(993,750)	(993,750)
Transfer to statutory reserve	-	54,566	(54,566)	-
Balance as at 31 March 2018	150,000,000	1,470,208	5,283,289	156,753,497
Three month period ended 31 March 2019				
Balance as at 1 January 2019	150,000,000	1,418,154	16,575,345	167,993,499
Net profit for the period	-	-	3,839,035	3,839,035
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	3,839,035	3,839,035
Zakat for the period (note 6)	-	-	(383,904)	(383,904)
Transfer to statutory reserve	-	383,904	(383,904)	-
Balance as at 31 March 2019	**150,000,000**	**1,802,058**	**19,646,572**	**171,448,630**

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

INTERIM STATEMENT OF CASH FLOWS
For the three month period ended 31 March 2019

	Notes	*31 March 2019 (Unaudited) SR*	*31 March 2018 (Unaudited) SR*
OPERATING ACTIVITIES			
Net profit for the period		**3,839,035**	545,657
Non-cash adjustment to reconcile profit before zakat to net cash flows:			
Impairment loss on Ijara and Murabaha receivables, net	7b	**448,793**	574,747
Depreciation on right-of-use asset		**251,980**	-
Provision for employees' terminal benefits		**128,877**	174,675
Amortisation		**126,553**	82,352
Depreciation on property and equipment		**84,216**	228,915
Finance charge on lease		**50,383**	-
Unrealised gain on derivatives		**(61,609)**	-
Impairment loss on assets acquired in satisfaction of claims	7g	**-**	1,328,300
Amortisation of loan facility fee		**150,000**	281,250
Operating cash flows before working capital adjustments		**5,018,228**	3,215,896
Working capital adjustments:			
Restricted cash deposits		**219,871**	(797,955)
Ijara and Murabaha receivables		**(78,150,352)**	(9,389,830)
Prepayments and other assets		**(2,627,488)**	(237,340)
Accounts payable and accruals		**4,591,497**	158,461
Net cash used in operations		**(70,948,244)**	(7,050,768)
Employees' terminal benefits paid		**(9,229)**	-
Zakat paid	6	**(68,729)**	-
Net cash used in operating activities		**(71,026,202)**	(7,050,768)
INVESTING ACTIVITY			
Purchase of intangible assets		**(84,552)**	-
Cash used in investing activity		**(84,552)**	-
FINANCING ACTIVITIES			
Borrowings obtained		**37,968,000**	7,979,542
Borrowings repaid		**(10,962,483)**	(9,151,437)
Net cash from (used in) financing activities		**27,005,517**	(1,171,895)
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD		**(44,105,237)**	(8,222,663)
Cash and cash equivalents at the beginning of the period		**52,688,909**	26,409,890
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**8,583,672**	18,187,227
Supplementary information:			
Special commission income from Ijara and Murabaha contracts received		**6,579,251**	9,228,413
Non-cash transactions:			
Right-of-use assets		**3,779,705**	-
Prepaid rent (adjustment upon adoption of IFRS 16)		**(849,098)**	-
Lease liability		**2,930,607**	-

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

1 ACTIVITIES

Alraedah Finance Company (the "Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010314982 issued in Riyadh on 21 Ramadan 1432H (corresponding to 21 August 2011).

The Company has one branch in Buriydah under commercial registration numbered 1131056928 dated 24 Shaban 1437H (corresponding to 31 May 2016) and one branch in Dammam under commercial registration numbered 2051222088 dated 17 Dhul-Qadah 1439H (corresponding to 30 July 2018).

The Company is engaged in providing finance lease and finance for small and medium entities in the form of Ijara and Murabaha in accordance with the approval from Saudi Arabian Monetary Authority ("SAMA").

2 BASIS OF PREPARATION

The interim condensed financial statements have been prepared in accordance with 'International Accounting Standard (IAS) 34 – Interim Financial Reporting as modified by SAMA for the accounting of zakat and income tax'. Accordingly, International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" are not applicable in so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 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.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at and for the year ended 31 December 2018. In addition, the results for the three month period ended 31 March 2019 is not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

The Company has adopted all new applicable accounting standards most particularly IFRS 16 "Leases" from 1 January 2019 and changes in accounting policies relating to these new standards are disclosed in the notes 3 and 13. The preparation of interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed financial statements, the significant judgments made by management in applying the Company's accounting policies are the same as those that applied to the annual financial statements for the year ended 31 December 2018, except relating to IFRS 16, as mentioned above.

These interim condensed financial statements have been presented in Saudi Riyals ("SR"), which is the functional currency of the Company.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

A number of standards, amendments and interpretations are applicable to the Company's financial statements for the first time in 2019, but do not have an impact on the interim condensed financial statements of the Company except for those mentioned below:

IFRS 16 Leases

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

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

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and is adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16 Leases (continued)

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

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

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

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

The Company included the renewal period as part of the lease term for leases of commercial space due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., upto three years) and there will be a significant negative effect on operation if a replacement is not readily available.

4 GENERAL AND ADMINSTRATIVE EXPENSES

	For the three month period ended	
	31 March 2019	*31 March 2018*
	(Unaudited)	*(Unaudited)*
	SR	*SR*
Salaries and employees' related cost	**2,916,209**	2,351,642
Professional fees	**450,000**	468,747
Health insurance expense	**120,779**	25,740
Utilities expense	**61,150**	49,877
Sharia board fee	**36,000**	36,000
Rent expense	**30,417**	288,702
Other expenses	**329,206**	301,107
	3,943,761	3,521,815

5 SELLING AND MARKETING EXPENSES

	For the three month period ended	
	31 March 2019	*31 March 2018*
	(Unaudited)	*(Unaudited)*
	SR	*SR*
Salaries and employees' related cost	**506,910**	587,064
Commission expense	**418,573**	433,601
	925,483	1,020,665

6 ZAKAT

The movement in the zakat provision for the period / year was as follows:

	Three month period ended 31 March 2019 (Unaudited) SR	*Year ended 31 December 2018 (Audited) SR*	*Three month period ended 31 March 2018 (Unaudited) SR*
At beginning of the period / year	**3,869,766**	14,577,767	14,577,767
Provided during the period / year	**383,904**	25,120*	993,750
Excess provision relating to prior years	**-**	(10,565,829)*	-
Paid during the period / year	**(68,729)**	(167,292)	-
At end of the period / year	**4,184,941**	3,869,766	15,571,517

Status of assessments
As at 31 March 2019, the Company has filed the zakat returns with the General Authority of Zakat and Tax ("GAZT") for all the years up to the year 2018.

* Subsequent to the year ended 31 December 2018 and before the issuance of the financial statements for the year ended 31 December 2018, the Company received a communication from GAZT in connection with the settlement of the open zakat assessments of the Company for the years 2016 and 2017. Based on such communication, the Company has reversed zakat provision amounting to SR 10,565,829, being the excess provision made by the Company for the years 2016 and 2017, in the statement of changes in shareholders' equity in financial statements for year ended 31 December 2018. Zakat charge for the year ended 31 March 2018 is based on the guidance contained in the aforementioned communication from GAZT.

For the years from 2012 to 2015 and 2018, no assessment has been raised by GAZT yet.

7 IJARA AND MURABAHA RECEIVABLES, NET

Receivables have an original term period of between 1 to 5 years.

7(a) Total receivables

	31 March 2019 (Unaudited)			*31 December 2018 (Audited)*		
	Ijara SR	***Murabaha SR***	***Total SR***	*Ijara SR*	*Murabaha SR*	*Total SR*
Gross receivables	**8,058,399**	**347,813,980**	**355,872,379**	9,432,199	259,391,744	268,823,943
Less: Unearned finance income	**(5,381,209)**	**(72,164,792)**	**(77,546,001)**	(5,540,986)	(62,955,014)	(68,496,000)
	2,677,190	**275,649,188**	**278,326,378**	3,891,213	196,436,730	200,327,943
Less: Allowance for impairment losses	**(1,130,024)**	**(5,899,325)**	**(7,029,349)**	(1,000,427)	(5,732,046)	(6,732,473)
Net receivables	**1,547,166**	**269,749,863**	**271,297,029**	2,890,786	190,704,684	193,595,470

7 IJARA AND MURABAHA RECEIVABLES, NET (continued)

7 (b) Movement in allowance for impairment losses

	31 March 2019 (Unaudited) SR	31 December 2018 (Audited) SR	31 March 2018 (Unaudited) SR
Balance at the beginning of the year	**6,732,473**	4,195,141	4,195,141
Impairment charge for the year	**448,793**	6,201,146	574,747
Written off during the year	**(151,917)**	(3,663,814)	-
Balance at the end of the year	**7,029,349**	6,732,473	4,769,888

7 (c) Expected maturity

The expected maturity of the receivables is as follows:

	31 March 2019 (Unaudited) SR			31 December 2018 (Audited) SR		
	Ijara SR	**Murabaha SR**	**Total SR**	Ijara SR	Murabaha SR	Total SR
Within 1 year	**2,677,190**	**198,702,506**	**201,379,696**	3,891,213	132,630,640	136,521,853
1 - 2 years	**-**	**46,663,128**	**46,663,128**	-	37,750,041	37,750,041
2 - 3 years	**-**	**28,788,719**	**28,788,719**	-	24,198,338	24,198,338
3 - 4 years	**-**	**926,238**	**926,238**	-	1,045,913	1,045,913
4 - 5 years	**-**	**568,597**	**568,597**	-	811,798	811,798
Total	**2,677,190**	**275,649,188**	**278,326,378**	3,891,213	196,436,730	200,327,943

7(d) Aging of receivables (past due but not impaired)

As at reporting date, the ageing of past due but not impaired instalments and the related balances of receivables are as follows:

	< 30 days SR	31 - 60 days SR	61 – 90 Days SR	91 – 120 Days SR	121 – 180 Days SR	Above 180 days SR	Total SR
31 March 2019 (Unaudited)							
Receivables	**26,182,180**	**3,864,897**	**531,272**	**6,388,433**	**3,445,449**	**65,661,391**	**106,073,622**
Delinquent instalments	**3,698,730**	**2,444,476**	**2,201,922**	**2,121,011**	**4,433,595**	**66,498,141**	**81,397,875**
31 December 2018 (Audited)							
Receivables	17,173,589	6,854,123	1,127,560	1,591,547	5,676,632	69,385,874	101,809,325
Delinquent instalments	3,992,811	2,801,340	2,957,541	2,856,097	6,443,820	63,507,955	82,559,564

7 IJARA AND MURABAHA RECEIVABLES, NET (continued)

7(e) Economic Sector risk concentration for the receivables is as follows

Sector concentration	***31 March 2019 (Unaudited)***	*31 December 2018 (Audited)*
Services	**46.56%**	34.29%
Contracting	**20.52%**	30.48%
Retail business	**16.49%**	14.76%
Trading	**9.05%**	14.34%
Industrial	**7.38%**	6.13%

7(f) Collateral

The Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk of the receivables. These collaterals mostly include vehicles, machinery and real estate. The collaterals are held against receivables and are managed against relevant exposures at their net realisable values. The value of the collateral as at 31 March 2019 amount to SR 372,590,185 (unaudited) (31 December 2018: SR 377,253,605 (audited)) out of which the Company has pledged SR 48,850,776 as at 31 March 2019 (unaudited) (31 December 2018: SR 48,850,776 (audited)) against the loan facility from Gulf International Bank (see note 9).

7 (g) Assets acquired in satisfaction of claims

During prior years, the Company acquired a real estate property in satisfaction of claims in order to achieve an orderly realization of Murabaha receivables amounting to SR 6,000,000. During 2018, the Company calculated the fair value of real estate property which amounted to SR 4,671,700 and accordingly management recorded an impairment loss of SR 1,328,300 in interim condensed statement of comprehensive income for the three month period ended 31 March 2018. Subsequent to 31 March 2018, during 2018, the Company sold the real estate property which resulted in a further loss of SR 434,450.

8 SHARE CAPITAL

Share capital is divided into 15,000,000 shares of SR 10 each (unaudited) (31 December 2018: 15,000,000 shares of SR 10 each (audited)).

9 BORROWINGS

The table below shows the details of the borrowings obtained by the Company:

	31 March 2019 (Unaudited) SR	*31 December 2018 (Audited) SR*
A Bank borrowings	**29,397,125**	21,311,625
B Borrowings from a government entity	**63,581,004**	44,510,987
	92,978,129	65,822,612
Current portion	**37,347,341**	27,521,193
Long term portion	**55,630,788**	38,301,419
	92,978,129	65,822,612

9 BORROWINGS (continued)

A - Bank borrowings
The Company has a facility with Alawwal bank amounting to SR 4.5 million (31 December 2018: SR 4.5 million (audited)). As at 31 March 2019, SR Nil was utilised (unaudited) (31 December 2018: SR 0.8 million (audited)). This term loan is secured by assignment of proceeds from receivables and a promissory note and carry borrowing cost at floating rates.

The Company also has a term loan facility with Gulf International Bank ("GIB") amounting to SR 37.5 million (31 December 2018: SR 37.5 million (audited)). As at 31 March 2019, SR 29.4 million was utilised (unaudited) (31 December 2018: SR 20.7 million (audited)). This term loans is secured by real estate collateral, assignment of proceeds from receivables and a promissory note, and carry borrowing cost at floating rates.

The Company has paid facility fees on GIB borrowings amounting to SR 0.1 million (unaudited) (31 December 2018: SR 0.6 million (audited)) with respect to the term loans facilities which is netted off against the term loans and is amortised over the duration of the facility on an EIR basis.

B - Borrowings from a government entity
During September 2018, the Company received a loan from a government entity amounting to SR 50 million and an additional loan of SR 25 million was received during February 2019. These are to be repaid in monthly instalments commencing from January 2019 and June 2019 respectively, with the final instalment of due in December 2021 and June 2023 respectively.

The above loans received by the Company from a government entity carry a fixed special commission rate that is significantly lower than currently prevailing market rate. These loans provided to the Company carry a number of conditions, one of which is that these loans are to be used for providing loans to specific types/sectors of customers at discounted rates. The benefit on both loans amounting to SR 7.74 million being the impact of "lower than market value" loan obtained by the Company has been identified and accounted for as a "government grant" initially and has been recorded as deferred income and classified within "accounts payable and accruals". Such benefit is being recognised in profit or loss of the Company on a systematic basis as the expense for which such grant is intended to compensate is recognised. The amount of government grant not yet recognised in profit or loss as at 31 March 2018 amounts to SR 5.53 million (unaudited) (31 December 2019: SR 2.95 million (audited)) and is included within "accounts payable and accruals".

10 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

The following are the details of major related party transactions during the period:

Compensation of key management personnel of the Company

	Amount of transactions for the three month period ended	
	31 March 2019 (Unaudited) SR	*31 March 2018 (Unaudited) SR*
Remuneration	**453,621**	410,384

11 RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and special commission rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by senior management. The most important risks and their management is summarised below.

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments of the Company will fluctuate due to changes in foreign exchange rates. The Company is not subject to fluctuations in foreign exchange rates in the normal course of its business as neither it undertakes significant transactions nor does it have any significant monetary assets and liabilities denominated in foreign currency.

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market special commission rates. The Company is not subject to variations in the fair value of its financial instruments as none of the fixed rate bearing financial instruments are carried at fair value. However, the Company is subject to variations arising from changes to special commission rates on its term loans, which are generally priced on floating rates. The Company manages its special commission rate risk by entering into CRS against its long term loans.

The sensitivity to an increase/decrease of 15 basis points change in special commission rates on floating rate term loans, with all other variables remaining constant, on the Company's profit or loss for the year is a decrease/increase of SR 44,096 (unaudited) (31 December 2018: a decrease/increase of SR 31,967 (audited)).

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The Company has established a credit policy for corporate borrowers. Furthermore, all the loans are allowed for the maximum term of 60 months. As per such policy, Ijara and Murabaha receivable are not granted unless the borrower meets certain basic requirements, which are set out below:

- Corporate Know Your Customer ("KYC") validation of real operation;
- Income earned through cash flows;
- Collateral provided as equipment, vehicles, machineries, properties, unless exempted; and
- Valuation of above mentioned collateral within basic Finance to Value ("FTV") ratios.

The Company monitors its receivables on a weekly basis. Furthermore, most of the receivables are backed by adequate collaterals.

In case of receivables past due for six months, the Company takes legal actions against the borrower with an aim to either collect the receivable by selling the collaterals against which the financing is provided or force the customers to regularise their overdue positions.

The table below reflects Company's maximum exposure to credit risk for the components on the interim statement of financial position:

	31 March 2019 (Unaudited) *SR*	*31 December 2018 (Audited)* *SR*
Bank balances	**8,583,672**	52,688,909
Restricted cash deposits	**2,988,206**	3,208,077
Ijara and Murabaha receivables, net	**271,297,029**	193,595,470
Other assets	**4,993,179**	2,402,746
	287,862,086	251,895,202

11 RISK MANAGEMENT (continued)

Legal risk
Title deed of the real estate properties are registered in the name of a board member. The enforceability of any related rights and obligations are subject to interpretation and enforceability in the relevant courts of law.

Liquidity risk
Liquidity risk is the risk that the Company will be unable to meet its net financing requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of financing to dry up immediately. Management monitors the maturity profile of the Company's assets and liabilities to ensure that adequate liquidity is maintained.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the interim condensed statement of financial position date to the contractual maturity date.

31 March 2019 (Unaudited)	***On demand SR***	***Less than 3 months SR***	***3-12 months SR***	***1-5 Years SR***	***Without maturity SR***	***Total SR***
Accounts payable and accruals	-	1,650,581	1,728,717	12,258,496	-	**15,169,308**
Lease liability	-	-	1,211,365	1,769,625	-	**2,980,990**
Borrowings	-	11,794,908	30,883,138	59,117,282	-	**101,795,328**
Total	-	**13,445,489**	**33,823,220**	**73,145,403**	-	**119,945,626**

31 December 2018 (Audited)	*On demand SR*	*Less than 3 months SR*	*3-12 months SR*	*1-5 Years SR*	*Without maturity SR*	*Total SR*
Accounts payable and accruals	-	4,700,542	3,105,356	5,373,823	-	13,179,721
Borrowings	-	9,155,632	23,836,617	39,448,259	-	72,440,508
Total	-	13,856,174	26,941,973	44,822,082	-	85,620,229

For the purpose of above disclosures, accrued special commission has been included within borrowings.

12 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The principal or the most advantageous market must be accessible to by the Company.

Financial instruments comprise financial asset and financial liabilities. Financial assets of the Company includes bank balances and cash, restricted cash deposits, Murabaha and Ijara receivables, accrued income and other receivables. Financial liabilities of the Company include borrowings, lease liability and accounts payable and accruals.

12 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All the financial assets and liabilities of the Company are classified within level 2 of the fair value hierarchy except for Murabaha receivables and borrowings which are classified within level 3 of the fair value hierarchy.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

There have been no transfers between various fair value hierarchy level during the current or prior year.

Following table is a comparison of the carrying amounts and fair values of financial assets and financial liabilities as at 31 March 2019 and 31 December 2018:

	31 March 2019 (Unaudited)		*31 December 2018 (Audited)*	
	Carrying amounts SR	***Fair values SR***	*Carrying amounts SR*	*Fair values SR*
Financial assets				
Bank balances and cash	**8,583,672**	**8,583,672**	52,688,909	52,688,909
Restricted cash deposits	**2,988,206**	**2,988,206**	3,208,077	3,208,077
Ijara and Murabaha receivables, net	**271,297,029**	**271,297,029**	193,595,470	193,595,470
Other assets	**4,993,179**	**4,993,179**	2,402,746	2,402,746
Total	**287,862,086**	**287,862,086**	251,895,202	251,895,202
Financial liabilities				
Accounts payable and accruals*	**20,699,831**	**20,699,831**	13,179,721	13,179,721
Lease liability	**2,980,990**	**2,980,990**	-	-
Borrowings*	**93,446,615**	**93,446,615**	66,328,875	66,328,875
Total	**117,127,436**	**117,127,436**	79,508,596	79,508,596

* For the purpose of above disclosure, accrued special commission has been included within borrowings.

13 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

a) *Impact on the interim statement of financial position as at 1 January 2019:*

	(Unaudited) ***SR***
Assets	
Righ-of-use assets	**3,779,705**
Prepayments	**(849,098)**
	2,930,607
Liability	
Lease liability	**2,930,607**
Net impact as at 1 January 2019	-

b) *Reconciliation of lease liability*

	31 March 2019 ***SR***
Off-balance sheet lease obligations as of 31 December 2018	**1,132,131**
Contract reassessed with optional extension periods not recognised as at 31 December 2018	**2,264,262**
Operating lease obligations as of 1 January 2019 (gross, without discounting)	**3,396,393**
Operating lease obligations as of 1 January 2019 (net, discounted)	**2,930,607**

14 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation in the current period.

15 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on 20 Sha'aban 1440H (corresponding 25 April 2019).