Alraedah Finance Company
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT

FOR THE THREE AND NINE MONTHS PERIODS ENDED 30 SEPTEMBER 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 condensed statement of financial position of Alraedah Finance Company - A Saudi Closed Joint Stock Company (the "Company") as at 30 September 2019 and the related interim condensed statement of comprehensive income for the three-month and nine-month periods ended 30 September 2019 and interim condensed statements of changes in shareholders' equity and cash flows for the nine-month period then ended and a summary of significant accounting policies and other 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" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. 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 IAS 34 as endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

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

Riyadh: 25 Safar 1441H
(24 October 2019)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
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INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the three-month and nine-month periods ended 30 September 2019

	Note	*For the three-month period ended (Unaudited)*		*For the nine-month period ended (Unaudited)*	
		30 September 2019 SR	*30 September 2018 SR (Restated, note 14)*	***30 September 2019 SR***	*30 September 2018 SR (Restated, note 14)*
OPERATING INCOME					
Special commission income from Ijara and Murabaha contracts		**17,233,056**	8,496,053	**42,263,486**	22,319,769
Finance charges		**(6,201,035)**	(884,197)	**(12,317,153)**	(2,664,990)
		11,032,021	7,611,856	**29,946,333**	19,654,779
Application fees and other income		**559,270**	622,288	**1,679,562**	1,902,547
TOTAL OPERATING INCOME, NET		**11,591,291**	8,234,144	**31,625,895**	21,557,326
OPERATING EXPENSES					
General and administrative expenses	4	**(3,704,845)**	(3,930,426)	**(11,637,348)**	(11,054,140)
Selling and marketing expenses	5	**(864,658)**	(787,337)	**(2,758,653)**	(2,673,380)
Impairment loss on assets acquired in satisfaction of claims	7(g)	**-**	-	**-**	(1,328,300)
Impairment loss on Ijara and Murabaha receivables	7(b)	**(4,596,376)**	(3,229,148)	**(7,596,376)**	(4,501,146)
Depreciation and amortisation		**(467,419)**	(284,101)	**(1,395,252)**	(910,660)
PROFIT BEFORE ZAKAT		**1,957,993**	3,132	**8,238,266**	1,089,700
Zakat	6	**(195,800)**	(993,750)	**(823,827)**	(2,981,250)
NET PROFIT (LOSS) FOR THE PERIOD		**1,762,193**	(990,618)	**7,414,439**	(1,891,550)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**-**	-	**-**	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		**1,762,193**	(990,618)	**7,414,439**	(1,891,550)

The attached notes 1 to 16 form part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 September 2019

	Note	*30 September 2019 SR (Unaudited)*	*31 December 2018 SR (Audited)*
ASSETS			
Bank balances and cash		**33,866,230**	52,688,909
Restricted cash deposits		**2,988,206**	3,208,077
Prepayments and other assets		**5,379,604**	4,461,492
Ijara and Murabaha receivables	7(a)	**279,781,460**	193,595,470
Property and equipment		**395,659**	643,567
Right-of-use assets	13	**3,023,766**	-
Intangible assets		**372,814**	672,143
TOTAL ASSETS		**325,807,739**	255,269,658
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable and accruals		**23,465,397**	16,638,429
Zakat payable	6	**4,624,864**	3,869,766
Lease liability	13	**3,081,756**	-
Borrowings	9	**118,158,266**	65,822,612
Employees' terminal benefits		**1,069,518**	945,352
TOTAL LIABILITIES		**150,399,801**	87,276,159
SHAREHOLDERS' EQUITY			
Share capital	8	**150,000,000**	150,000,000
Statutory reserve		**2,159,598**	1,418,154
Retained earnings		**23,248,340**	16,575,345
TOTAL SHAREHOLDERS' EQUITY		**175,407,938**	167,993,499
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**325,807,739**	255,269,658

The attached notes 1 to 16 form part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine-month period ended 30 September 2019

	Share capital SR	*Statutory reserve SR*	*Retained earnings SR*	*Total SR*
For the nine-month period ended 30 September 2018				
Balance as at 1 January 2018	150,000,000	1,415,642	5,785,948	157,201,590
Net loss for the period, as restated (note 14)	-	-	(1,891,550)	(1,891,550)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period, as restated (note 14)	-	-	(1,891,550)	(1,891,550)
Transfer to statutory reserve	-	108,970	(108,970)	-
Balance as at 30 September 2018 (unaudited)	150,000,000	1,524,612	3,785,428	155,310,040
For the nine-month period ended 30 September 2019				
Balance as at 1 January 2019	150,000,000	1,418,154	16,575,345	167,993,499
Net profit for the period	-	-	7,414,439	7,414,439
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	7,414,439	7,414,439
Transfer to statutory reserve	-	741,444	(741,444)	-
Balance as at 30 September 2019 (unaudited)	**150,000,000**	**2,159,598**	**23,248,340**	**175,407,938**

The attached notes 1 to 16 form part of these interim condensed financial statements.

Alraedah Finance Company
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the nine-month period ended 30 September 2019

	Note	*30 September 2019* *SR* ***(Unaudited)***	*30 September 2018* *SR* *(Unaudited)*
OPERATING ACTIVITIES			
Profit before zakat		**8,238,266**	1,089,700
Adjustments for:			
Impairment loss on Ijara and Murabaha receivables	7(b)	**7,596,376**	4,501,146
Depreciation on right-of-use assets	13	**755,939**	-
Amortisation		**383,881**	249,803
Depreciation on property and equipment		**255,432**	660,857
Amortisation of finance cost		**250,000**	-
Provision for employees' terminal benefits		**158,689**	290,324
Finance charge on lease	13	**151,149**	-
Impairment loss on assets acquired in satisfaction of claims	7(g)	**-**	1,328,300
Unrealised gain on derivatives		**(556,417)**	-
Operating cash flows before working capital adjustments		**17,233,315**	8,120,130
Working capital adjustments:			
Restricted cash deposits		**219,871**	(797,955)
Ijara and Murabaha receivables		**(93,782,366)**	(5,920,157)
Prepayments and other assets		**(1,272,402)**	(2,185,975)
Accounts payable and accruals		**6,888,577**	883,046
Cash (used in) from operating activities		**(70,713,005)**	99,089
Employees' terminal benefits paid		**(34,523)**	(10,284)
Zakat paid	6	**(68,729)**	(167,292)
Net cash used in operating activities		**(70,816,257)**	(78,487)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(7,524)**	(184,212)
Purchase of intangible assets		**(84,552)**	-
Net cash used in investing activities		**(92,076)**	(184,212)
FINANCING ACTIVITIES			
Proceeds from borrowings		**78,620,613**	57,979,582
Repayments of borrowings		**(26,534,959)**	(22,673,612)
Net cash from financing activities		**52,085,654**	35,305,970
NET (DECREASE) INCREASE IN BANK BALANCES AND CASH		**(18,822,679)**	35,043,271
Bank balances and cash at the beginning of the period		**52,688,909**	26,409,890
BANK BALANCES AND CASH AT THE END OF THE PERIOD		**33,866,230**	61,453,161
Supplementary information:			
Special commission income from Ijara and Murabaha contracts received		**16,578,593**	20,539,919
Non-cash transactions:			
Right-of-use assets	13	**3,779,705**	-
Prepaid rent (adjustment upon adoption of IFRS 16)	13	**(849,098)**	-
Lease liability	13	**2,930,607**	-

The attached notes 1 to 16 form part of these interim condensed financial statements.

1 ACTIVITIES

Alraedah Finance Company (the "Company") is a Saudi Closed Joint Stock Company registered in Riyadh, 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

Saudi Organization for Certified Public Accountants ("SOCPA") has issued Circular no. 2019/23099 dated 26 Sha'aban 1440H (corresponding to 1 May 2019) as a clarification of Royal Decree no. 36763 dated 3 Rajab 1440H (corresponding to 10 March 2019) relating to the accounting for zakat and income tax. The impact of these amendments is that zakat and income tax are considered to be the liability of the Company and are accordingly accrued and recognised in the interim statement of profit or loss with a corresponding liability recognised.

Pursuant to the clarification from SOCPA, the Company has now revised the accounting for zakat and prior period numbers for the earliest period presented have been consequently restated. The effects of the above change which have impacted the comparatives figures are disclosed in note 14 to the interim condensed financial statements.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and therefore 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 nine-month period ended 30 September 2019 is not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

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 those relating to adoption of IFRS 16 as disclosed in notes 3 and 13.

Applying the above framework, the interim condensed financial statements of the Company as at and for the three month and nine month periods ended 30 September 2019 have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting, as endorsed in Kingdom of Saudi Arabia.

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

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

3 CHANGE TO THE 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 other 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:

a. 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 is and 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.

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.

3 CHANGE TO THE SIGNIFICANT ACCOUNTING POLICIES (continued)

a. *IFRS 16 Leases (continued)*

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

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

The Company has the option, under some of its leases to lease the assets for additional terms of two to 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., up to three years) and there will be a significant negative effect on operation if a replacement is not readily available.

b. *Zakat*

Zakat, as clarified by SOCPA dated 3 Rajab 1440H (corresponding to 1 May 2019), is considered to be a liability of the Company and are accordingly recognised in the interim condensed statement of comprehensive income and accrued in the interim condensed statement of financial position (see note 2 - basis of preparation and note 14 – prior period restatements).

4 GENERAL AND ADMINSTRATIVE EXPENSES

	For the three-month period ended 30 September		*For the nine-month period ended 30 September*	
	2019 (Unaudited) SR	*2018 (Unaudited) SR*	***2019 (Unaudited) SR***	*2018 (Unaudited) SR*
Salaries and employees' related cost	**2,515,813**	2,586,884	**8,246,468**	7,161,987
Professional fees	**459,719**	455,997	**1,364,497**	1,380,741
Insurance	**120,279**	133,098	**361,337**	327,142
Utilities	**73,143**	58,880	**201,014**	202,621
Sharia board fee	**36,000**	36,000	**108,000**	108,000
Rent	**28,749**	307,452	**87,915**	884,856
Other	**471,142**	352,115	**1,268,117**	988,793
	3,704,845	3,930,426	**11,637,348**	11,054,140

5 SELLING AND MARKETING EXPENSES

	For the three-month period ended 30 September		*For the nine-month period ended 30 September*	
	2019 (Unaudited) SR	*2018 (Unaudited) SR*	***2019 (Unaudited) SR***	*2018 (Unaudited) SR*
Salaries and employees' related cost	**540,530**	468,905	**1,654,658**	1,431,524
Commission	**324,128**	318,432	**1,103,995**	1,241,856
	864,658	787,337	**2,758,653**	2,673,380

6 ZAKAT

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

	30 September 2019 SR (Unaudited)	*31 December 2018 SR (Audited)*	*30 September 2018 SR (Unaudited)*
At the beginning of the period / year	**3,869,766**	14,577,767	14,577,767
Provided during the period / year	**823,827**	25,120	2,981,250
Excess provision relating to prior years (*)	-	(10,565,829)	-
Paid during the period / year	**(68,729)**	(167,292)	(167,292)
At the end of the period / year	**4,624,864**	3,869,766	17,391,725

Status of assessments
As at 30 September 2019, the Company had filed its zakat returns with the General Authority of Zakat and Tax ("GAZT") for all previous years up to 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. For the years from 2012 to 2015 and 2018, no assessment has been raised by GAZT yet.

Zakat charge for the period ended 30 September 2019, amounting to SR 823,827, is based on the guidance contained in the aforementioned communication from GAZT.

7 IJARA AND MURABAHA RECEIVABLES

Receivables have original term between 1 to 5 years.

7 (a) Total receivables

	30 September 2019 (Unaudited)			*31 December 2018 (Audited)*		
	Ijara SR	***Murabaha SR***	***Total SR***	*Ijara SR*	*Murabaha SR*	*Total SR*
Gross receivables	**8,058,399**	**355,808,487**	**363,866,886**	9,432,199	259,391,744	268,823,943
Less: unearned finance income	**(5,381,208)**	**(64,527,287)**	**(69,908,495)**	(5,540,986)	(62,955,014)	(68,496,000)
	2,677,191	**291,281,200**	**293,958,391**	3,891,213	196,436,730	200,327,943
Less: allowance for impairment losses	**(1,000,427)**	**(13,176,504)**	**(14,176,931)**	(1,000,427)	(5,732,046)	(6,732,473)
Net receivables	**1,676,764**	**278,104,696**	**279,781,460**	2,890,786	190,704,684	193,595,470

7 IJARA AND MURABAHA RECEIVABLES (continued)

7 (b) *Movement in allowance for impairment losses*

	30 September 2019 SR (Unaudited)	*31 December 2018 SR (Audited)*	*30 September 2018 SR (Unaudited)*
Balance at the beginning of the period/year	**6,732,473**	2,267,696	2,267,696
Adjustment for first time adoption of IFRS 9	**-**	1,927,445	1,927,445
Impairment charge for the period/year	**7,596,376**	6,201,146	4,501,146
Written off during the period/year	**(151,918)**	(3,663,814)	(2,815,845)
Balance at the end of the year	**14,176,931**	6,732,473	5,880,442

7 (c) *Expected maturity*

The expected maturity of the receivables is as follows:

	30 September 2019 SR (Unaudited)			*31 December 2018 SR (Audited)*		
	Ijara SR	*Murabaha SR*	*Total SR*	*Ijara SR*	*Murabaha SR*	*Total SR*
Within 1 year	**2,677,191**	**219,001,321**	**221,678,512**	3,891,213	132,630,640	136,521,853
1 - 2 years	-	**45,689,455**	**45,689,455**	-	37,750,041	37,750,041
2 - 3 years	-	**21,979,052**	**21,979,052**	-	24,198,338	24,198,338
3 - 4 years	-	**4,611,372**	**4,611,372**	-	1,045,913	1,045,913
4 - 5 years	-	-	-	-	811,798	811,798
Total	**2,677,191**	**291,281,200**	**293,958,391**	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 receivables are as follows:

	< 30 days SR	*30 - 60 days SR*	*61 – 90 days SR*	*91 – 120 days SR*	*121 – 180 days SR*	*Above 180 days SR*	*Total SR*
30 September 2019 (Unaudited)							
Receivables	**25,874,651**	**5,563,297**	**5,103,768**	**1,704,910**	**25,895,739**	**70,352,676**	**134,495,041**
Delinquent instalments	**4,259,875**	**2,377,182**	**2,416,547**	**2,040,793**	**24,018,435**	**101,422,687**	**136,535,519**
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 (continued)

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

Sector concentration	***30 September 2019 (Unaudited)***	*31 December 2018 (Audited)*
Services	**48.61%**	34.29%
Contracting	**21.20%**	30.48%
Retail business	**16.07%**	14.76%
Trading	**7.43%**	14.34%
Industrial	**6.69%**	6.13%

7 (f) *Collateral*

The Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the receivables. These collaterals mostly include vehicle, 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 30 September 2019 amount to SR 400,005,703 (31 December 2018: SR 377,253,605) out of which the Company has pledged SR 48,850,776 as at 30 September 2019 (31 December 2018: SR 48,850,776) 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 the interim condensed statement of comprehensive income for the three-month period ended 31 March 2018. Subsequently, 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 (31 December 2018: 15,000,000 shares) of SR 10 each.

9 BORROWINGS

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

	30 September 2019 SR (Unaudited)	*31 December 2018 SR (Audited)*
A Bank borrowings	**19,880,253**	21,311,625
B Borrowings from a government entity	**98,278,013**	44,510,987
	118,158,266	65,822,612
Current portion	**47,544,713**	27,521,193
Non-current portion	**70,613,553**	38,301,419
	118,158,266	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). As at 30 September 2019, SR nil was utilised (31 December 2018: SR 0.8 million). This term loan is secured by assignment of proceeds from receivables and a promissory note and carry borrowing cost at floating rates.

The Company has a term loan facility with Gulf International Bank ("GIB") amounting to SR 37.5 million (31 December 2018: SR 37.5 million). As at 30 September 2019, SR 19.9 million was utilised (31 December 2018: SR 20.5 million). These term loans are secured by collateral, assignment of proceeds from receivables, promissory note, and carry borrowing cost at floating rates.

B - Borrowings from a government entity
During the period, the Company received additional loans from a government entity amounting to SR 75 million (31 December 2018: SR 50 million). This is to be repaid in monthly instalments commencing from January 2019 and September 2019, respectively, with the final instalment of the total loan due in June 2023.

The above loan received by the Company from a government entity carries a fixed special commission rate that is significantly lower than currently prevailing market rate. This loan provided to the Company carries 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 these loans amounting to SR 13.109 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 30 September 2019 amounts to SR 5.5 million (31 December 2018: SR 2.95 million) and is included within "accounts payable and accruals".

10 RELATED PARTIES 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 30 September		*Amount of transactions for the nine-month period ended 30 September*	
	2019 (Unaudited) SR	*2018 (Unaudited) SR*	***2019 (Unaudited) SR***	*2018 (Unaudited) SR*
Remuneration	**451,854**	410,347	**1,359,096**	1,231,043

11 RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk and special commission rate risks), credit risk, legal 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 interest 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 in special commission income 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 commission rate swaps ("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 period/year is a decrease/increase of SR 29,820 (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 nine 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 condensed statement of financial position:

	30 September 2019 ***SR*** ***(Unaudited)***	*31 December 2018* *SR* *(Audited)*
Bank balances and cash	**33,866,230**	52,688,909
Restricted cash deposits	**2,988,206**	3,208,077
Ijara and Murabaha receivables	**279,781,460**	193,595,470
Other assets	**3,136,012**	2,402,746
	319,771,908	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.

30 September 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 & accruals	-	2,022,184	5,646,684	15,442,505	-	**23,111,373**
Lease liability	1,132,131	-	1,132,131	817,494	-	**3,081,756**
Borrowings	-	14,133,672	38,713,480	80,794,916	-	**133,642,068**
Total	**1,132,131**	**16,155,856**	**45,492,295**	**97,054,915**	-	**159,835,197**

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 & 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 the Company.

Financial instruments comprise financial asset and financial liabilities. Financial assets of the Company includes bank balances and cash, restricted cash deposits, Ijara and Murabaha receivables 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.

13 EFFECT OF ADOPTION OF IFRS 16

The Company has adopted IFRS 16 from its mandatory adoption date of 1 January 2019 using the modified retrospective approach as permitted under the specific transition provision in the standard. As a result, comparative of the year ended 31 December 2018 are not restated.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	SR ***(Unaudited)***
Assets	
Right-of-use assets	**3,779,705**
Prepayments	**(849,098)**
	2,930,607
Liability	
Lease liability	**2,930,607**
Total adjustment on shareholders' equity	**-**

The Company has not used the practical expedients of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 and IFRIC 4. In adopting IFRS 16, the Company has applied the following practical expedients:

- the use of a single discount rate to a portfolio leases with reasonably similar characteristics;
- accounting for operating leases in accordance with IAS 17 as short-term leases with remaining lease term of less than 12 months as at 1 January 2019;
- exclusion of initial direct costs for the measurement of right-of-use assets at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- the election, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

13 EFFECT OF ADOPTION OF IFRS 16 (continued)

On adoption of IFRS 16, the Company has recognised lease liability and associated right-of-use assets in relation to contract that has been concluded as lease under the principles of IFRS 16. The liability was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. The associated right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of prepayments relating to that lease recognised in the statement of financial position for the year ended 31 December 2018. The weighted average lessee's incremental borrowing rate applied to the lease liability as at 1 January 2019 was 5.02%.

The table below shows the amounts recognised in the interim condensed statement of financial position and interim condensed statement of comprehensive income:

	Right-of-use assets	*Lease liabilities*
	SR	*SR*
As at 1 January 2019 (note 3(a))	3,779,705	2,930,607
Depreciation expense (see note below)	(755,939)	-
Interest expense (see note below)	-	151,149
As at 30 September 2019	3,023,766	3,081,756

The Company recognised depreciation expense relating to right-of-use assets and interest expense relating to lease liabilities for the three-month and nine-month periods ended 30 September 2019 under "depreciation and amortisation" and "finance charges", respectively.

14 PRIOR PERIOD RESTATEMENTS

As set out in note 2 and 3(b), the Company has changed its accounting treatment to charge zakat for the period to the interim condensed statement of comprehensive income. Previously, zakat was charged directly to the interim condensed statement of changes in shareholders' equity. The change in the accounting treatment has the following impacts on the line items of the interim condensed statement of comprehensive income:

	For the three-month period ended 30 September 2018	*For the nine-month period ended 30 September 2018*
	SR	*SR*
Net profit (loss) and total comprehensive income (loss) for the period		
Net profit and total comprehensive income for the period, as previously stated	3,132	1,089,700
Adjustment relating to the accounting for zakat charge	(993,750)	(2,981,250)
Net loss and total comprehensive loss for the period, as restated	(990,618)	(1,891,550)

The change has had no impact on the shareholders' equity and the interim condensed statement of cash flows for the nine-month period ended 30 September 2018.

15 COMPARATIVE FIGURES

In addition to prior period restatements in note 14, certain comparative figures have been reclassified to conform with the presentation in the current period.

16 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on 23 Safar 1441H (corresponding to 22 October 2019).