Alraedah Finance Company
(A Saudi Closed Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2019

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Ernst & Young & Co. (Certified Public Accountants)
General Partnership
Head Office
Al Faisaliah Office Tower - 14th floor
King Fahad Road
PO Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Registration No. 45/11/323
C.R. No. 1010383821

Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730

ey.ksa@sa.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ALRAEDAH FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Alraedah Finance Company (the "Company"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *"Auditor's Responsibilities for the Audit of the Financial Statements"* section of our report. We are independent of the Company in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ALRAEDAH FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY) (CONTINUED)

Report on the audit of the financial statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of 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, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ALRAEDAH FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY) (CONTINUED)

Report on the audit of the financial statements (continued)

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

for Ernst & Young

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

Riyadh: 8 Rajab 1441H
(3 March 2020)

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	***2019*** ***SR***	*2018* *SR* *(Restated, note 22)*
OPERATING INCOME			
Special commission income from Ijara and Murabaha contracts		**55,475,642**	30,264,618
Finance charges		**(11,632,196)**	(3,960,382)
		43,843,446	26,304,236
Application fees and other income		**3,120,875**	2,983,153
TOTAL OPERATING INCOME, NET		**46,964,321**	29,287,389
EXPENSES			
General and administrative expenses	5	**(15,091,333)**	(16,804,627)
Selling and marketing expenses	6	**(3,926,686)**	(3,442,212)
Impairment loss on assets acquired in satisfaction of claims	12(b)	**-**	(1,328,300)
Realised loss on sale of assets acquired in satisfaction of claims	12(b)	**-**	(434,450)
Depreciation and amortisation	9, 10 and 21	**(1,813,066)**	(825,454)
Impairment loss on Ijara and Murabaha receivables	12(c)	**(20,228,735)**	(6,201,146)
INCOME BEFORE ZAKAT		**5,904,501**	251,200
Zakat	8	**2,352,146**	10,540,709
NET INCOME FOR THE YEAR		**8,256,647**	10,791,909
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,256,647**	10,791,909

The attached notes 1 to 24 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	***2019*** ***SR***	*2018* *SR*
ASSETS			
Bank balances	11	**9,683,664**	52,688,909
Restricted cash deposits	11(a)	**1,237,503**	3,208,077
Ijara and Murabaha receivables	12(a)	**275,415,940**	193,595,470
Prepayments and other assets	13	**6,867,728**	3,568,642
Investment held at fair value through other comprehensive income	14	**892,850**	892,850
Right-of-use asset	21	**2,771,783**	-
Property and equipment	9	**304,506**	643,567
Intangible assets	10	**860,521**	672,143
TOTAL ASSETS		**298,034,495**	255,269,658
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable and accruals	17	**17,838,192**	16,638,429
Zakat payable	8	**1,448,889**	3,869,766
Lease liability	21	**1,881,954**	-
Borrowings	16	**99,548,259**	65,822,612
Employees' terminal benefits		**1,067,055**	945,352
TOTAL LIABILITIES		**121,784,349**	87,276,159
SHAREHOLDERS' EQUITY			
Share capital	15	**150,000,000**	150,000,000
Statutory reserve		**2,243,819**	1,418,154
Retained earnings		**24,006,327**	16,575,345
TOTAL SHAREHOLDERS' EQUITY		**176,250,146**	167,993,499
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**298,034,495**	255,269,658

The attached notes 1 to 24 form part of these financial statements.

STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

	Share capital SR	*Statutory reserve SR*	*Retained earnings SR*	*Total SR*
Balance as at 1 January 2018	150,000,000	1,415,642	5,785,948	157,201,590
Net income for the year, as restated (note 22)	-	-	10,791,909	10,791,909
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year, as restated (note 22)	-	-	10,791,909	10,791,909
Transfer to statutory reserve	-	2,512	(2,512)	-
Balance as at 31 December 2018	150,000,000	1,418,154	16,575,345	167,993,499
Net income for the year	-	-	8,256,647	8,256,647
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	8,256,647	8,256,647
Transfer to statutory reserve	-	825,665	(825,665)	-
Balance as at 31 December 2019	**150,000,000**	**2,243,819**	**24,006,327**	**176,250,146**

The attached notes 1 to 24 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Notes	***2019*** ***SR***	*2018* *SR*
OPERATING ACTIVITIES			
Income before zakat		**5,904,501**	251,200
Adjustments for:			
Impairment loss on Ijara and Murabaha receivables	12(c)	**20,228,735**	6,201,146
Depreciation on right-of-use asset	21	**1,007,922**	-
Amortisation of intangible assets	10	**418,051**	373,954
Depreciation on property and equipment	9	**387,093**	451,500
Amortisation of loan facility fee		**250,000**	-
Provision for employees' terminal benefits		**229,660**	367,351
Finance charge on lease	21	**189,847**	-
Impairment loss on assets acquired in satisfaction of claims	12(b)	**-**	1,328,300
Realised loss on sale of assets acquired in satisfaction of claims	12(b)	**-**	434,450
Unrealised gain on derivatives		**(493,149)**	(82,270)
Operating cash flows before working capital adjustments		**28,122,660**	9,325,631
Working capital adjustments:			
Restricted cash deposits		**1,970,574**	607,075
Ijara and Murabaha receivables		**(102,049,205)**	(19,575,885)
Prepayments and other assets		**(3,954,797)**	1,990,859
Accounts payable and accruals		**1,499,525**	6,729,888
Net cash used in operations		**(74,411,243)**	(922,432)
Employees' terminal benefits paid		**(107,957)**	(10,284)
Zakat paid	8	**(68,731)**	(167,292)
Net cash used in operating activities		**(74,587,931)**	(1,100,008)
INVESTING ACTIVITIES			
Purchase of property and equipment	9	**(48,032)**	(319,889)
Purchase of intangible assets	10	**(606,429)**	(487,136)
Proceeds from sale of assets acquired in satisfaction of claims		**-**	4,237,250
Net cash (used in) from investing activities		**(654,461)**	3,430,225
FINANCING ACTIVITIES			
Borrowings obtained		**78,620,613**	57,914,809
Borrowings repaid		**(45,144,966)**	(33,966,007)
Lease liability	21	**(1,238,500)**	-
Net cash from financing activities		**32,237,147**	23,948,802
NET (DECREASE) INCREASE IN BANK BALANCES		**(43,005,245)**	26,279,019
Bank balances at the beginning of the year		**52,688,909**	26,409,890
BANK BALANCES AT THE END OF THE YEAR		**9,683,664**	52,688,909
Supplementary information:			
Special commission income from Ijara and Murabaha contracts received		**22,330,663**	27,371,241
Supplemental non-cash information:			
Ijara and murabaha receivables written off	12(c)	**18,155,658**	3,663,814
Right-of-use asset	21	**3,779,705**	-
Prepaid rent (adjustment upon adoption of IFRS 16)	21	**(849,098)**	-
Lease liability	21	**(2,930,607)**	-

The attached notes 1 to 24 form part of these financial statements.

1 CORPORATE INFORMATION

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 of Saudi Arabian Monetary Authority ("SAMA") numbered 43/ASH/201602 issued on 30 Rabi Thani 1437H (corresponding to 9 February 2016).

The address of the Company's registered office is Alraedah Finance Company, Olaya Towers, Tower B, 3rd Floor, Olaya Street, P.O. Box 86875, Riyadh, 11632, Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION

The financial statements of the Company as at and for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants (collectively referred to as "IFRSs as endorsed in KSA").

The financial statements of the Company as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax.

On 17 July 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia.

Accordingly, the Company changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3.1(b)) and the effects of this change are disclosed in note 22 to the financial statements. Further, the Company has adopted IFRS 16 "Leases" from 1 January 2019 and accounting policies for the new standard are disclosed in the note 3.1(a).

In preparing these financial statements, the significant judgments made by management are the same as those that applied to the financial statements for the year ended 31 December 2018, except for as disclosed in notes 3.1(a) and 3.1(b) below.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Change to significant accounting policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the Company's financial statements for the year ended 31 December 2018, except for the adoption of new standards and amendments to existing standards mentioned below:

Effective 1 January 2019, the Company has adopted following accounting standards and interpretation, the impact of adoption which are explained below:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Change to significant accounting policies (continued)

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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Change to significant accounting policies (continued)

a. IFRS 16 – Leases (continued)

Significant judgement in determining the lease term of contracts with renewal options (continued)
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 statement of comprehensive income and accrued in the statement of financial position (see note 2 – basis of preparation and note 22 – prior year restatements).

3.2 Standards issued but not yet effective

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

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Standards issued but not yet effective (continued)

Amendments to IFRS 3: Definition of a Business (continued)
Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

3.3 Significant accounting policies

Financial instruments

Classification of financial assets
On initial recognition, a financial asset is classified as amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

Financial assets at amortised 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 interest on the principal amount outstanding.

Financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Financial assets at FVOCI
Debt instruments
A debt instrument is measured at FVOCI only 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 achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Financial instruments (continued)

Classification of financial assets (continued)
Financial assets at FVOCI (continued)
Equity instruments
On initial recognition, for 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.

Financial assets at FVTPL
All other financial assets are classified as measured at FVTPL.

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

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are 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 originated or newly purchased financial assets going forward.

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

Assessment of whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Financial instruments (continued)

Classification of financial assets (continued)
Assessment of whether contractual cash flows are solely payments of principal and interest (continued)
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 the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

Classification of financial liabilities
Upon initial recognition, the Company classifies its financial liabilities, as measured at amortised cost or as at fair value through profit or loss.

Financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss or an entity has opted to measure a liability at fair value through profit or loss as per the requirements of IFRS 9.

All the financial liabilities of the Company, except derivatives being carried at fair value, are currently carried at amortised cost.

Amortized cost
Ijara and Murabaha receivables and other financial assets measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investments designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Financial instruments (continued)

Modifications of financial assets and financial liabilities
Financial assets
If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as special commission income.

Financial liabilities
The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

Impairment
The Company recognizes loss allowances for Expected Credit Loss (“ECL”) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- loan commitments issued, if any.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within a period of 12 months after the reporting date.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The Company categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

- Stage 1 – Financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months Probability of Default (PD).
- Stage 2 – Financial assets that has significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on lifetime ECL. The impairment allowance is recorded based on life time PD.
- Stage 3 – For financial assets that are impaired, the Company recognizes the impairment allowance based on life time PD.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Financial instruments (continued)

Impairment (continued)
The Company also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as expert judgement, macroeconomic factors (e.g., gross domestic product, inflation, average consumer prices) and economic forecasts obtained through internal and external sources.

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

- financial assets that are not credit-impaired at the reporting date: 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 the cash flows that the Company expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming 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.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Financial instruments (continued)

Impairment (continued)
Presentation of allowance for ECL
Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment loss.

Collateral valuation
To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as personal guarantees other non-financial assets. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. The fair value of collaterals affect the calculation of ECLs. The value of the collateral is determined at inception.

Collateral repossessed
The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to inventories at the repossession date in, line with the Company's policy.

Revenue / expenses recognition
Special commission income and expenses
Special commission income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Revenue / expenses recognition (continued)
Special commission income and expenses (continued)
The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Measurement of amortized cost and special commission income
The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating special commission income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, special commission income is calculated by applying the effective special commission rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of special commission income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Expenses
Selling and marketing expenses are those that specifically relate to salesmen and marketing expenses. All other expenses are classified as general and administrative expenses.

Current versus non-current classification
The Company presents assets and liabilities in the notes to the financial statements based on current / non-current classification. An asset is classified as current when it is:
- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

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

The Company classifies all other liabilities as non-current.

However, assets and liabilities in the statement of financial position are presented in the order of liquidity.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Assets acquired in satisfaction of claims

Assets acquired in satisfaction of claims are assets acquired in exchange for claims in order to achieve an orderly realization. The asset acquired are recognised at the lower of its fair value less costs to sell and the carrying amount of the claim net of provision for impairment at the date of exchange.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, if any. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Expenditure for repair and maintenance are charged to profit or loss. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Intangible assets

Intangible assets are measured at cost upon initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at each financial year-end, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets comprise licenses and computer software and are amortized over a useful life of 4-5 years.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses is recognized profit or loss in those expense categories which are consistent with the function of the impaired asset. Except in case of goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

Impairment loss reognised against carrying value of goodwill is not reversed in subsequent periods.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Operating leases

Operating lease payments, for assets excluded in IFRS 16, are recognised as expenses in profit or loss on a straight-line method basis over the lease contract period.

Accounts payable and accruals

Accounts payable and accruals are initially measured at fair value and subsequently remeasured at amortised cost. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed or not.

Zakat

Zakat is provided on an accrual basis, and in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia. As set out in 3.1(b), zakat is charged to statement of comprehensive income.

Borrowings

Special commission bearing funding from financial institutions and shareholders are measured at amortised cost using the effective profit rate ("EPR") method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EPR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included in special commission expense in profit or loss.

Employees' terminal benefits

The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding effect to retained earnings through other comprehensive income in the year in which they occur. Remeasurements are not reclassified to profit or loss in subsequent years.

Past service cost is recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs.

Net special commission expense is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in profit or loss:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements (under general and administration expenses); and
- Net special commission expense or income (under financing facility cost and charges).

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Statutory reserve

As required by Saudi Arabian Regulations for Companies, 10% of the income for the year should be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 30% of the capital

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.
When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

4 SIGNIFICANT ACCOUNTING ESTIMATES

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

Impairment losses on financial assets
The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- The Company's internal credit grading model, which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as gross domestic product, inflation, average consumer prices, and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings

The Company reviews its Ijara and Murabaha receivables at each reporting date to assess whether a specific provision for credit losses should be recorded in statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific provision.

Going concern
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

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

5 GENERAL AND ADMINISTRATIVE EXPENSES

	2019	*2018*
	SR	*SR*
Salaries and employees' related cost	**11,104,632**	11,274,709
Professional fees	**2,208,597**	1,870,237
Utilities expense	**299,004**	611,030
Sharia board fee	**144,000**	140,000
Rent expense	**116,664**	1,201,639
Office supplies	**91,779**	74,208
Other expenses	**1,126,657**	1,632,804
	15,091,333	16,804,627

6 SELLING AND MARKETING EXPENSES

	2019	*2018*
	SR	*SR*
Salaries and employees' related cost	**2,208,465**	1,755,960
Commission expense	**1,718,221**	1,686,252
	3,926,686	3,442,212

7 DERIVATIVES

As at 31 December 2019, the Company had outstanding Special Commission Rate Swaps ("CRS") of a notional value of SR 36.1 million (2018: SR 21.6 million), in order to reduce its exposure to special commission rate risks against long term loans.

Positive fair value of such CRS amounting to SR 193,387 (note 13) (2018: negative fair value amounting to SR 299,762 (note 17)) represents their mark to market values at the reporting date.

8 ZAKAT

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

	2019	*2018*
	SR	*SR*
At the beginning of the year	**3,869,766**	14,577,767
Charge for the year	**1,217,595**	25,120
Adjustment relating to prior years (see note below)	**(3,569,741)**	(10,565,829)
Payment during the year	**(68,731)**	(167,292)
At the end of the year	**1,448,889**	3,869,766

Status of assessments

As at 31 December 2019, the Company had filed the zakat returns with the GAZT up to the year 2018 which is still under review by the GAZT.

Zakat charge for the year 2019 amounting SR 1.2 million (2018: SR 25,120) was based on the guidance contained in the communication from GAZT.

In November 2019, the GAZT issued the zakat and withholding tax assessments for the years 2014 and 2015 amounting to SR 7.2 million. The Company submitted the appeal letters against the above GAZT assessments which GAZT accepted. Accordingly, the Company adjusted the previously kept additional zakat provision of SR 3.6 million for the said years.

For the year ended 31 December 2018, the GAZT finalized the Company's zakat position for the years 2016 and 2017 through a mutually agreed basis. Based on such agreement, the Company reversed zakat provision amounting to SR 10.6 million, being the excess provision made by the Company for the years 2016 and 2017.

9 PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for calculation of depreciation are as follows:

Furniture and fixtures	3 years
Office equipment	4 years
Vehicles	4 years

	2019			
	Furniture and fixtures SR	*Office equipment SR*	*Vehicles SR*	***Total SR***
Cost				
At the beginning of the year	3,089,129	356,929	108,600	**3,554,658**
Additions during the year	-	48,032	-	**48,032**
At the end of the year	3,089,129	404,961	108,600	**3,602,690**
Accumulated depreciation				
At the beginning of the year	2,543,147	270,366	97,578	**2,911,091**
Depreciation charge for the year	328,761	51,869	6,463	**387,093**
At the end of the year	2,871,908	322,235	104,041	**3,298,184**
Net book value				
At 31 December 2019	**217,221**	**82,726**	**4,559**	**304,506**

	2018			
	Furniture and fixtures SR	*Office equipments SR*	*Vehicles SR*	*Total SR*
Cost				
At the beginning of the year	2,824,169	302,000	108,600	3,234,769
Additions during the year	264,960	54,929	-	319,889
At the end of the year	3,089,129	356,929	108,600	3,554,658
Accumulated depreciation				
At the beginning of the year	2,156,924	211,552	91,115	2,459,591
Depreciation charge for the year	386,223	58,814	6,463	451,500
At the end of the year	2,543,147	270,366	97,578	2,911,091
Net book value				
At 31 December 2018	545,982	86,563	11,022	643,567

10 INTANGIBLE ASSETS

The estimated useful lives of the intangible assets for calculation of amortisation are as follows:

Licenses	4-5 years
Computer software	4 years

	Licenses SR	*Computer software SR*	***Total 2019 SR***
Cost			
At the beginning of the year	320,000	1,836,405	**2,156,405**
Additions during the year	-	606,429	**606,429**
At the end of the year	320,000	2,442,834	**2,762,834**
Accumulated amortisation			
At the beginning of the year	228,607	1,255,655	**1,484,262**
Amortisation charge for the year	39,999	378,052	**418,051**
At the end of the year	268,606	1,633,707	**1,902,313**
Net book value			
At 31 December 2019	**51,394**	**809,127**	**860,521**

	Licenses SR	*Computer software SR*	*Total 2018 SR*
Cost			
At the beginning of the year	320,000	1,349,269	1,669,269
Additions during the year	-	487,136	487,136
At the end of the year	320,000	1,836,405	2,156,405
Accumulated amortisation			
At the beginning of the year	188,607	921,701	1,110,308
Amortisation charge for the year	40,000	333,954	373,954
At the end of the year	228,607	1,255,655	1,484,262
Net book value			
At 31 December 2018	91,393	580,750	672,143

11 BANK BALANCES AND CASH

Bank current accounts are with counterparties who have investment grade credit ratings, as rated by international rating agencies.

11(a) *Restricted cash deposits*

In line with the requirements of funding facilities granted by the banks, the Company has set aside SR1,237,503 (2018: SR3,208,077) as "restricted cash deposits". The cash is deposited in a bank account and is not available for the Company's operational use.

12 IJARA AND MURABAHA RECEIVABLES

Ijara and Murabaha receivables have an original term period of between 1 to 5 years.

12(a) Total receivables

	31 December 2019			*31 December 2018*		
	Ijara SR	*Murabaha SR*	*Total SR*	*Ijara SR*	*Murabaha SR*	*Total SR*
Receivables	**7,063,330**	**335,795,074**	**342,858,404**	9,432,199	259,391,744	268,823,943
Less: unearned finance income	**(5,381,207)**	**(53,255,707)**	**(58,636,914)**	(5,540,986)	(62,955,014)	(68,496,000)
	1,682,123	**282,539,367**	**284,221,490**	3,891,213	196,436,730	200,327,943
Less: provision for expected credit loss	**(10,713)**	**(8,794,837)**	**(8,805,550)**	(1,000,427)	(5,732,046)	(6,732,473)
Net receivables	**1,671,410**	**273,744,530**	**275,415,940**	2,890,786	190,704,684	193,595,470

All the financing facilities provided by Company are Shariah compliant, accordingly they are unconventional in nature.

12(b) 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 statement of comprehensive income. Subsequently, during 2018, the Company sold the real estate property which resulted in a further loss of SR 434,450.

12 IJARA AND MURABAHA RECEIVABLES (continued)

12(c) Movement in provision for impairment loss

	2019	*2018*
	SR	*SR*
Balance at the beginning of the year	**6,732,473**	2,267,696
Adjustment on adoption of IFRS 9	**-**	1,927,445
Balance at the beginning of the year, adjusted	**6,732,473**	4,195,141
Impairment charge for the year	**20,228,735**	6,201,146
Written off during the year	**(18,155,658)**	(3,663,814)
Balance at the end of the year	**8,805,550**	6,732,473

12(d) Expected maturity

The expected maturity of Ijara and Murabaha receivables is as follows:

	31 December 2019			*31 December 2018*		
	Ijara	***Murabaha***	***Total***	*Ijara*	*Murabaha*	*Total*
	SR	***SR***	***SR***	*SR*	*SR*	*SR*
Within 1 year	**1,682,123**	**223,441,479**	**225,123,602**	3,891,213	132,630,640	136,521,853
1 - 2 years	**-**	**44,089,421**	**44,089,421**	-	37,750,041	37,750,041
2 - 3 years	**-**	**11,118,295**	**11,118,295**	-	24,198,338	24,198,338
3 - 4 years	**-**	**3,890,172**	**3,890,172**	-	1,045,913	1,045,913
4 - 5 years	**-**	**-**	**-**	-	811,798	811,798
Total	**1,682,123**	**282,539,367**	**284,221,490**	3,891,213	196,436,730	200,327,943

12(e) Aging of receivables (past due but not impaired)

As at 31 December, the ageing of past due but not impaired instalments and the related balances of receivables are as follows:

	< 30 days	*31 - 60 days*	*61 – 90 days*	*91 – 120 days*	*121 – 180 days*	*Above 180 days*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*
2019							
Receivables	**20,848,470**	**15,102,796**	**27,784,103**	**609,657**	**1,669,833**	**56,757,156**	**122,772,015**
Delinquent instalments	**2,186,919**	**2,062,447**	**27,624,584**	**1,196,417**	**10,504,406**	**30,657,603**	**74,232,376**
2018							
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

12 IJARA AND MURABAHA RECEIVABLES (continued)

12(f) Economic sector risk concentration for the receivables is as follows

Sector concentration	*2019*	*2018*
Services	**58.56%**	34.29%
Contracting	**18.60%**	30.48%
Trading	**6.81%**	14.34%
Retail business	**9.51%**	14.76%
Industrial	**6.52%**	6.13%

12(g) Collateral

The Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk associated with 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 collateral as at 31 December amount to SR 416,766,207 (2018: SR 377,253,605) out of which the Company has pledged SR 25,669,042 (2018: SR 48,850,776) against the loan facility from Gulf International Bank (see note 16).

13 PREPAYMENTS AND OTHER ASSETS

	2019 *SR*	*2018* *SR*
Prepaid expenses	**1,195,565**	2,058,746
Advances to suppliers	**2,100,025**	-
Employee receivables	**205,946**	163,688
Positive fair value of derivative (note 7)	**193,387**	-
Deposits	**91,234**	94,234
Others	**3,081,571**	1,251,974
	6,867,728	3,568,642

14 INVESTMENT HELD AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 12 December 2017, the Company subscribed 2.38% shareholding in Saudi Company for Registration of Financial Leasing Contracts (“Registration Company”), registered in the Kingdom of Saudi Arabia. The Registration Company has been formed with other finance and leasing Companies registered in the Kingdom of Saudi Arabia for registration of contracts relating to financial leases and amendments and registration and transfer of title deeds of the assets under the finance leases arrangements.

15 SHARE CAPITAL

Capital is divided into 15,000,000 shares (2018: 15,000,000 shares) of SR 10 each.

16 BORROWINGS

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

		2019 *SR*	*2018* *SR*
A	Bank borrowings	**9,374,362**	21,311,625
B	Borrowings from a government entity	**90,173,897**	44,510,987
		99,548,259	65,822,612
	Current portion	**31,071,558**	27,521,193
	Non-current portion	**68,476,701**	38,301,419
		99,548,259	65,822,612

All borrowing facilities of the Company are Shariah complaint financing arrangements and are unconventional in nature.

A - Bank borrowings
The Company has facilities with local banks amounting to SR 37.5 million (2018: SR 42.0 million). As at 31 December 2019, outstanding borrowings amounted to SR 9.4 million (2018: SR 21.3 million). These term loans are secured by assignment of proceeds from receivables and carry borrowing cost at the floating interest rates of SIBOR plus 3.50% p.a. The term loans are payable on a monthly basis with final maturity of 17 February 2022.

B - Borrowings from a government entity
During the year, the Company received additional loans from a government entity amounting to SR 75 million (2018: SR 50 million). This is to be repaid in monthly instalments commencing from January 2019, with the final instalment 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 rate. The benefit amounting to SR 9.22 million (2018: SR 5.16 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 statement of comprehensive income 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 December 2019 amounts to SR nil (2018: SR 2.95 million) and is included within "accounts payable and accruals" (see note 17).

17 ACCOUNTS PAYABLE AND ACCRUALS

	2019 *SR*	*2018* *SR*
Customer deposits	**9,584,028**	3,339,480
Employees related accruals	**6,218,773**	6,442,957
Accrued special commission	**354,019**	506,263
Accrued professional fees	**249,246**	1,017,810
Deferred income (note 16)	**-**	2,952,445
Negative fair value of derivative (note 7)	**-**	299,762
Others	**1,432,126**	2,079,712
	17,838,192	16,638,429

18 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 year:

Compensation of key management personnel of the Company

	2019	*2018*
	SR	*SR*
Remuneration	**1,418,501**	1,627,234
Termination and other long term benefits	**848,640**	-
Total compensation paid to key management personnel	**2,267,141**	1,627,234

19 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.

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company neither has monetary assets/liabilities, nor has undertaken any transactions in currencies other than Saudi Riyal and US Dollars during the year. As Saudi Riyal is currently pegged to the US Dollar and there were no significant transactions or exposure in currencies other than Saudi Riyal and US Dollars, management believes that the Company has no significant exposure to currency risk.

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 CRS against its long term loans.

The sensitivity to an increase/decrease of 100 basis points change in special commission rates on floating rate term loans, with all other variables remaining constant, on the Company's statement of comprehensive income for the year is a decrease/increase of SR 93,744 (2018: an increase/decrease of SR 213,116).

i) Special commission rate sensitivity of assets and liabilities

The Company manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of special commission rate reprising that may be undertaken, which is monitored daily by the management.

The Company is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities instruments that mature or re-price in a given period. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The effective special commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The table below summarises the Company's exposure to special commission rate risks. Included in the table are the Company's assets and liabilites at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

19 RISK MANAGEMENT (continued)

Special commission rate risk (continued)

i) Special commission rate sensitivity of assets and liabilities (continued)

31 December 2019 Amounts in SR	*Within 3 months*	*3-12 months*	*1-5 years*	*Non-special commission bearing*	*Total*
Assets					
Bank balances	-	-	-	9,683,664	**9,683,664**
Restricted cash deposits	-	-	-	1,237,503	**1,237,503**
Ijara and Murabaha receivables	205,432,930	42,012,942	27,970,068	-	**275,415,940**
Prepayments and other assets	-	-	-	6,867,728	**6,867,728**
Investment held at FVOCI	-	-	-	892,850	**892,850**
Right-of-use asset	-	-	-	2,771,783	**2,771,783**
Property and equipment	-	-	-	304,506	**304,506**
Intangible assets	-	-	-	860,521	**860,521**
Total assets	**205,432,930**	**42,012,942**	**27,970,068**	**22,618,555**	**298,034,495**
Liabilities					
Accounts payable and accruals	-	-	-	17,838,192	**17,838,192**
Zakat payable	-	-	-	1,448,889	**1,448,889**
Borrowings	6,702,576	24,368,982	68,476,701	-	**99,548,259**
Lease liability	-	1,132,131	749,823	-	**1,881,954**
Employees' terminal benefits	-	-	-	1,067,055	**1,067,055**
Total liabilities	**6,702,576**	**25,501,113**	**69,226,524**	**20,354,136**	**121,784,349**
Total special commission rate sensitivity gap	**198,730,354**	**16,511,829**	**(41,256,456)**	**2,264,419**	**176,250,146**
Cumulative special commission rate sensitivity gap	**198,730,354**	**215,242,183**	**173,985,727**	**176,250,146**	

31 December 2018 Amounts in SR	*Within 3 months*	*3-12 months*	*1-5 years*	*Non-special commission bearing*	*Total*
Assets					
Bank balances and cash	-	-	-	52,688,909	52,688,909
Restricted cash deposits	-	-	-	3,208,077	3,208,077
Ijara and Murabaha receivables, net	61,069,915	69,808,000	62,717,555	-	193,595,470
Investment held at FVOCI	-	-	-	892,850	892,850
Prepayments and other assets	-	-	-	3,568,642	3,568,642
Property and equipment, net	-	-	-	643,567	643,567
Intangible assets, net	-	-	-	672,143	672,143
Total assets	61,069,915	69,808,000	62,717,555	61,674,188	255,269,658
Liabilities					
Accounts payable and accruals	-	-	-	16,638,429	16,638,429
Zakat payable	-	-	-	3,869,766	3,869,766
Borrowings	16,428,027	14,466,454	34,928,131	-	65,822,612
Employees' terminal benefits	-	-	-	945,352	945,352
Total liabilities	16,428,027	14,466,454	34,928,131	21,453,547	87,276,159
Total special commission rate sensitivity gap	44,641,888	55,341,546	27,789,424	40,220,641	167,993,499
Cumulative special commission rate sensitivity gap	44,641,888	99,983,434	127,772,858	167,993,499	

19 RISK MANAGEMENT (continued)

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
- 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 statement of financial position:

	2019 ***SR***	*2018* *SR*
Bank balances	**9,683,664**	52,688,909
Restricted cash deposits	**1,237,503**	3,208,077
Ijara and Murabaha receivables	**275,415,940**	193,595,470
Investment held at fair value through other comprehensive income	**892,850**	892,850
Other assets	**5,672,163**	1,509,896
	292,902,120	251,895,202

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost as at 31 December 2019 and 31 December 2018.

a) Gross carrying value of Ijara and Murabaha receivables before ECL

	12 month ECL SR	*Life time ECL not credit impaired SR*	*Lifetime ECL credit impaired SR*	*Total SR*
31 December 2019	**210,589,970**	**8,045,984**	**65,585,536**	**284,221,490**
31 December 2018	115,692,247	7,981,642	76,654,054	200,327,943

19 RISK MANAGEMENT (continued)

Credit risk (continued)
Credit quality analysis (continued)

b) Allowance for ECL

	12 month ECL SR	*Life time ECL not credit impaired SR*	*Lifetime ECL credit impaired SR*	*Total SR*
31 December 2019	**1,517,640**	**174,622**	**7,113,288**	**8,805,550**
31 December 2018	294,262	130,954	6,307,257	6,732,473

Amounts arising from ECL – Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, 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 expert credit assessment including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure based on approved stages of criteria.

Credit risk grades
The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

a) Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

The Company employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include GDP growth, inflation and average consumer prices etc.

b) Determining whether credit risk has increased significantly
The criteria for determining whether credit risk has increased significantly include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, which is determined under basis of Company's staging criteria.

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

19 RISK MANAGEMENT (continued)

Credit risk (continued)
Credit risk grades (continued)

c) Modified financial assets
The contractual terms of receivables may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing receivable whose terms have been modified may be derecognised and the renegotiated receivable recognised as a new receivable at fair value in accordance with the Company's accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly is completed on the basis of the approved staging criteria.

The Company may renegotiate receivables from customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Company's policy, receivables' forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of special commission payments and amending other terms attached to the receivables.

d) Definition of 'Default'
A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The obligor is past due for 90 days or more on any credit obligations to the Company including principal instalments and interest payments.
- The Company considers that the obligor 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).

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

e) Incorporation of forward looking information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on external actual and forecast information, the Company formulates a view of the future direction of relevant economic variables. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom of Saudi Arabia and selected private sector and academic forecasters.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

f) Measurement of ECL
The key inputs into the measurement of ECL are the term structure of the following variables:

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated, based on models and assessed using tools tailored to various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

19 RISK MANAGEMENT (continued)

Credit risk (continued)
Credit risk grades (continued)

f) Measurement of ECL (continued)
LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the recoveries and costs incurred in the process to arrive at the estimates.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

The Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of finance lease receivables.

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.

a) Analysis of assets and liabilities according to when they are expected to be recovered or settled

The table shows an analysis of assets and liabilities according to when they are expected to be recovered or settled:

31 December 2019 Amounts in SR	***Within 3 months***	***3-12 months***	***1-5 years***	***No fixed maturity***	***Total***
Assets					
Bank balances	9,683,664	-	-	-	**9,683,664**
Restricted cash deposits	1,237,503	-	-	-	**1,237,503**
Ijara and Murabaha receivables	205,432,930	42,012,942	27,970,068	-	**275,415,940**
Prepayments and other assets	2,100,000	-	-	4,767,728	**6,867,728**
Investments held at FVOCI	-	-	-	892,850	**892,850**
Right-of-use asset	-	-	-	2,771,783	**2,771,783**
Property and equipment	-	-	-	304,506	**304,506**
Intangible assets	-	-	-	860,521	**860,521**
Total assets	**218,454,097**	**42,012,942**	**27,970,068**	**9,597,388**	**298,034,495**
Liabilities					
Accounts payable and accruals	1,650,753	4,952,256	11,235,183	-	**17,838,192**
Zakat payable	1,448,889	-	-	-	**1,448,889**
Borrowings	6,702,576	24,368,982	68,476,701	-	**99,548,259**
Lease liability	-	1,132,131	749,823	-	**1,881,954**
Employees' terminal benefits	-	-	-	1,067,055	**1,067,055**
Total liabilities	**9,802,218**	**30,453,369**	**80,461,707**	**1,067,055**	**121,784,349**
Total maturity gap	**208,651,879**	**11,559,573**	**(52,491,639)**	**8,530,333**	**176,250,146**
Cumulative maturity gap	**208,651,879**	**220,211,452**	**167,719,813**	**176,250,146**	

19 RISK MANAGEMENT (continued)

Liquidity risk (continued)

a) Analysis of assets and liabilities according to when they are expected to be recovered or settled (continued)

31 December 2018 Amounts in SR	*Within 3 Months*	*3-12 Months*	*1-5 Years*	*No fixed maturity*	*Total*
Assets					
Bank balances	52,688,909	-	-	-	52,688,909
Restricted cash deposits	792,993	1,459,984	955,100	-	3,208,077
Ijara and Murabaha receivables	61,069,915	69,808,000	62,717,555	-	193,595,470
Prepayments and other assets	892,850	3,474,408	-	94,234	4,461,492
Property and equipment	-	-	-	643,567	643,567
Intangible assets	-	-	-	672,143	672,143
Total assets	115,444,667	74,742,392	63,672,655	1,409,944	255,269,658
Liabilities					
Accounts payable and accruals	4,700,542	3,105,356	8,832,531	-	16,638,429
Zakat payable	3,869,766	-	-	-	3,869,766
Borrowings	-	-	-	65,822,612	65,822,612
Employees' terminal benefits	-	-	-	945,352	945,352
Total liabilities	8,570,308	3,105,356	8,832,531	66,767,964	87,276,159
Total maturity gap	106,874,359	71,637,036	54,840,124	(65,358,020)	167,993,499
Cumulative maturity gap	106,874,359	178,511,395	233,351,519	167,993,499	

b) Analysis of undiscounted value 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 statement of financial position date to the contractual maturity date.

31 December 2019 Amounts in SR	***Less than 3 months***	***3-12 months***	***1-5 years***	***Total***
Accounts payable and accruals	1,296,734	4,952,256	11,235,183	**17,484,173**
Lease liability	-	1,132,131	1,132,131	**2,264,262**
Borrowings	8,920,048	30,530,547	69,538,306	**108,988,901**
Total	**10,216,782**	**36,614,934**	**81,905,620**	**128,737,336**

19 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2018 *Amounts in SR*	*Less than 3 months*	*3-12 months*	*1-5 years*	*Total*
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.

Capital management

The Company's policy is to maintain a strong capital base to maintain creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders. The Company's objectives for managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing the services commensurately with the level of risk.

20 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, restricted cash deposits, Ijara and Murabaha receivables, investment held at fair value through other comprehensive income and other receivables. Financial liabilities of the Company include borrowings and accounts payable and accruals.

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 Ijara and 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.

Management believes that the fair value of financial assets and liabilities at the reporting date approximate their carrying values.

21 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
Assets	
Right-of-use asset	**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.

On adoption of IFRS 16, the Company has recognised lease liability and associated right-of-use asset 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 asset is 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 statement of financial position and statement of comprehensive income:

	Right-of-use asset	*Lease liability*
	SR	*SR*
As at 1 January 2019 (note 3.1(a))	3,779,705	2,930,607
Depreciation expense (see note below)	(1,007,922)	-
Interest expense (see note below)	-	189,847
Payment during the year	-	(1,238,500)
As at 31 December 2019	**2,771,783**	**1,881,954**

The Company recognised depreciation expense relating to right-of-use asset and interest expense relating to lease liability for the year ended 31 December 2019 under "depreciation and amortisation" and "finance charges", respectively.

22 PRIOR YEAR RESTATEMENTS

As set out in note 2 and 3.1(b), the Company has changed its accounting treatment to charge zakat for the period to the statement of comprehensive income. Previously, zakat was charged directly to the statement of changes in shareholders' equity. The change in the accounting treatment has the following impacts on the line items of the statement of comprehensive income:

	2018
	SR
Statement of comprehensive income	
Net income for the year	
Net income for the year, as previously reported	251,200
Adjustment relating to the accounting for zakat charge	(25,120)
Adjustment relating to the accounting for reversal of excess zakat provision for prior years	10,565,829
Net income for the year, as restated	10,791,909

The change has had no impact on the shareholders' equity and the statement of cash flows for the year ended 31 December 2018.

23 COMPARATIVE INFORMATION

In addition to prior year adjustments in note 22, certain of the prior year amounts have been reclassified to conform with the presentation in the current year.

24 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 6 Rajab 1441H (corresponding 1 March 2020).