Alraedah Finance Company
(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT

FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2020

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Alraedah Finance Company - A Saudi Closed Joint Stock Company (the "Company") as at 31 March 2020 and the related interim condensed statements of comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended and a summary of significant accounting policies and other explanatory notes (the "interim condensed financial statements"). Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

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

Riyadh: 21 Ramadan 1441H
(14 May 2020)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
PROFESSIONAL LICENCE NO. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three-month period ended 31 March 2020

	Notes	*For the three-month period ended (Unaudited)* **31 March 2020 SR**	*31 March 2019 SR (Restated, note 14)*
OPERATING INCOME			
Special commission income from Ijara and Murabaha contracts		**5,605,070**	12,557,137
Finance charges		**(2,235,675)**	(3,437,339)
		3,369,395	9,119,798
Application fees and other income		**775,827**	500,023
TOTAL OPERATING INCOME, NET		**4,145,222**	9,619,821
OPERATING EXPENSES			
General and administrative expenses	4	**(3,501,324)**	(3,943,761)
Selling and marketing expenses	5	**(837,133)**	(925,483)
Impairment loss on Ijara and Murabaha receivables	7(b)	**(2,205,540)**	(448,793)
Depreciation and amortisation		**(481,939)**	(462,749)
(LOSS) PROFIT BEFORE ZAKAT		**(2,880,714)**	3,839,035
Zakat	6	**(48,770)**	(383,904)
NET (LOSS) PROFIT FOR THE PERIOD		**(2,929,484)**	3,455,131
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		-	-
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD		**(2,929,484)**	3,455,131

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

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Notes	***31 March 2020 SR (Unaudited)***	*31 December 2019 SR (Audited)*
ASSETS			
Bank balances		**7,938,248**	9,683,664
Receivable from SAMA	13	**100,750,000**	-
Ijara and Murabaha receivables	7(a)	**242,903,016**	275,415,940
Prepayments and other assets		**21,233,721**	6,867,728
Investment held at fair value through other comprehensive income		**892,850**	892,850
Right-of-use asset		**2,519,803**	2,771,783
Property and equipment		**287,043**	304,506
Intangible assets		**711,577**	860,521
Restricted cash deposits		**-**	1,237,503
TOTAL ASSETS		**377,236,258**	298,034,495
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Accounts payable and accruals		**18,700,869**	17,838,192
Payable to SAMA	13	**94,889,351**	-
Zakat payable	6	**1,442,674**	1,448,889
Lease liability		**1,920,652**	1,881,954
Borrowings	9	**85,802,698**	99,548,259
Employees' terminal benefits		**1,159,352**	1,067,055
TOTAL LIABILITIES		**203,915,596**	121,784,349
SHAREHOLDERS' EQUITY			
Share capital	8	**150,000,000**	150,000,000
Statutory reserve		**2,243,819**	2,243,819
Retained earnings		**21,076,843**	24,006,327
TOTAL SHAREHOLDERS' EQUITY		**173,320,662**	176,250,146
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**377,236,258**	298,034,495

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

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three-month period ended 31 March 2020

	Share capital SR	*Statutory reserve SR*	*Retained earnings SR*	*Total SR*
For the three-month period ended 31 March 2019 (unaudited)				
Balance as at 1 January 2019	150,000,000	1,418,154	16,575,345	167,993,499
Net profit for the period, as restated (note 14)	-	-	3,455,131	3,455,131
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period, as restated (note 14)	-	-	3,455,131	3,455,131
Transfer to statutory reserve	-	383,904	(383,904)	-
Balance as at 31 March 2019	150,000,000	1,802,058	19,646,572	171,448,630
For the three-month period ended 31 March 2020 (unaudited)				
Balance as at 1 January 2020	150,000,000	2,243,819	24,006,327	176,250,146
Net loss for the period	-	-	(2,929,484)	(2,929,484)
Other comprehensive income for the period	-	-	-	-
Total comprehensive loss for the period	-	-	(2,929,484)	(2,929,484)
Balance as at 31 March 2020	**150,000,000**	**2,243,819**	**21,076,843**	**173,320,662**

INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the Three-month period ended 31 March 2020

	Notes	***31 March 2020 SR (Unaudited)***	*31 March 2019 SR (Unaudited)*
OPERATING ACTIVITIES			
(Loss) profit before zakat		**(2,880,714)**	3,839,035
Adjustments for:			
Impairment loss on Ijara and Murabaha receivables	7(b)	**2,205,540**	448,793
Depreciation on right-of-use asset		**251,980**	251,980
Amortisation of intangible assets		**165,611**	126,553
Provision for employees' terminal benefits		**111,547**	128,877
Depreciation on property and equipment		**64,348**	84,216
Finance charge on lease		**38,698**	50,383
Unrealised gain on derivatives		**-**	(61,609)
Amortisation of loan facility fee		**-**	150,000
Operating cash flows before working capital adjustments		**(42,990)**	5,018,228
Working capital adjustments:			
Restricted cash deposits		**1,237,503**	219,871
Ijara and Murabaha receivables		**24,446,735**	(78,150,352)
Prepayments and other assets		**(14,365,993)**	(2,627,488)
Accounts payable and accruals		**862,677**	4,591,497
Net cash from (used in) operating activities		**12,137,932**	(70,948,244)
Employees' terminal benefits paid		**(19,250)**	(9,229)
Zakat paid	6	**(54,985)**	(68,729)
Net cash from (used in) operating activities		**12,063,697**	(71,026,202)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(46,885)**	-
Purchase of intangible assets		**(16,667)**	(84,552)
Cash used in investing activities		**(63,552)**	(84,552)
FINANCING ACTIVITIES			
Proceeds from borrowings		**-**	37,968,000
Repayments of borrowings		**(13,745,561)**	(10,962,483)
Net cash (used in) from financing activities		**(13,745,561)**	27,005,517
NET DECREASE IN BANK BALANCES		**(1,745,416)**	(44,105,237)
Bank balances at the beginning of the period		**9,683,664**	52,688,909
BANK BALANCES AT THE END OF THE PERIOD		**7,938,248**	8,583,672
Supplementary information:			
Special commission income from Ijara and Murabaha contracts received		**5,684,583**	6,579,251
Non-cash transactions:			
Right-of-use asset		**-**	3,779,705
Prepaid rent (adjustment upon adoption of IFRS 16)		**-**	(849,098)
Lease liability		**-**	2,930,607

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

1 ACTIVITIES

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

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

The Company is engaged in providing finance lease and finance for small and medium entities in the form of Ijara and Murabaha in accordance with the approval from Saudi Arabian Monetary Authority ("SAMA") 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 interim condensed financial statements of the Company as at and for the three-month period ended 31 March 2020 are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. These interim condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2019.

The interim condensed financial statements of the Company as at and for the three-month period ended 31 March 2019 were prepared in compliance with IAS 34 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 interim condensed 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, during 2019, 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 (the effects of this change are disclosed in note 14 to the interim condensed financial statements).

In preparing these interim condensed financial statements, the significant judgments made by the management are same as those that applied to the financial statements for the year ended 31 December 2019.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Significant accounting policies

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with IFRSs as endorsed in KSA. In addition, results for the three-month period ended 31 March 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

The accounting policies used in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2019.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Significant accounting judgments, estimates and assumptions

The preparation of the Company's interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The outbreak of novel coronavirus ("COVID-19") since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activity globally including the Kingdom of Saudi Arabia and the declaration of this pandemic by the World Health Organization necessitated the Company's management to revisit its significant judgments in applying the Company's accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2019. Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Company's management carried out an impact assessment on the overall Company's operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and concluded that, as of the issuance date of these interim condensed financial statements, no significant changes are required to the judgements and key estimates. However, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

Other than the above, the accounting estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019.

c) New standards, interpretations and amendments adopted by the Company

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Company has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed financial statements of the Company.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed financial statements of the Company as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "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 clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed financial statements of, nor is there expected to be any future impact to the Company.

4 GENERAL AND ADMINSTRATIVE EXPENSES

	For the three-month period ended 31 march	
	2020	*2019*
	(Unaudited)	*(Unaudited)*
	SR	*SR*
Salaries and employees' related cost	**2,323,683**	2,916,209
Professional fees	**462,000**	450,000
Health insurance expense	**127,647**	120,779
Utilities expense	**70,000**	61,150
Rent	**42,088**	30,417
Sharia board fee	**36,000**	36,000
Others	**439,906**	329,206
	3,501,324	3,943,761

5 SELLING AND MARKETING EXPENSES

	For the three-month period ended 31 March	
	2020	*2019*
	(Unaudited)	*(Unaudited)*
	SR	*SR*
Salaries and employees' related cost	**673,682**	506,910
Commission	**163,451**	418,573
	837,133	925,483

6 ZAKAT

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

	31 March 2020	*31 December 2019*	*31 March 2019*
	SR	*SR*	*SR*
	(Unaudited)	*(Audited)*	*(Unaudited)*
At the beginning of the period / year	**1,448,889**	3,869,766	3,869,766
Provided during the period / year	**48,770**	1,217,595	383,904
Adjustment relating to prior years (see note below)	**-**	(3,569,741)	-
Paid during the period / year	**(54,985)**	(68,731)	(68,729)
At the end of the period / year	**1,442,674**	1,448,889	4,184,941

Status of assessments

As at 31 March 2020, the Company had filed its zakat returns with the General Authority of Zakat and Tax ("GAZT") for all years up to 2018. Zakat return for 2019 is yet to be submitted.

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.

Zakat returns for the years 2012, 2013 and 2018 are still under review by the GAZT.

7 IJARA AND MURABAHA RECEIVABLES

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

7 (a) Total receivables

	31 March 2020 (Unaudited)			*31 December 2019 (Audited)*		
	Ijara SR	***Murabaha SR***	***Total SR***	*Ijara SR*	*Murabaha SR*	*Total SR*
Gross receivables	**7,052,616**	**289,257,952**	**296,310,568**	7,063,330	335,795,074	342,858,404
Less: unearned finance income	**(5,378,494)**	**(44,456,549)**	**(49,835,043)**	(5,381,207)	(53,255,707)	(58,636,914)
	1,674,122	**244,801,403**	**246,475,525**	1,682,123	282,539,367	284,221,490
Less: provision for impairment losses	**(2,714)**	**(3,569,795)**	**(3,572,509)**	(10,713)	(8,794,837)	(8,805,550)
Net receivables	**1,671,408**	**241,231,608**	**242,903,016**	1,671,410	273,744,530	275,415,940

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

7 (b) Movement in provision for impairment losses

	31 March 2020 SR (Unaudited)	*31 December 2019 SR (Audited)*	*31 March 2019 SR (Unaudited)*
Balance at the beginning of the period/year	**8,805,550**	6,732,473	6,732,473
Impairment charge for the period/year	**2,205,540**	20,228,735	448,793
Written off during the period/year	**(7,438,581)**	(18,155,658)	(151,917)
Balance at the end of the year	**3,572,509**	8,805,550	7,029,349

7 (c) Expected maturity

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

	31 March 2020 SR (Unaudited)			*31 December 2019 SR (Audited)*		
	Ijara SR	***Murabaha SR***	***Total SR***	*Ijara SR*	*Murabaha SR*	*Total SR*
Within 1 year	**1,674,122**	**186,537,927**	**188,212,049**	1,682,123	223,441,479	225,123,602
1 - 2 years	**-**	**40,227,066**	**40,227,066**	-	44,089,421	44,089,421
2 - 3 years	**-**	**15,180,642**	**15,180,642**	-	11,118,295	11,118,295
3 - 4 years	**-**	**2,855,768**	**2,855,768**	-	3,890,172	3,890,172
4 - 5 years	**-**	**-**	**-**	-	-	-
Total	**1,674,122**	**244,801,403**	**246,475,525**	1,682,123	282,539,367	284,221,490

7 IJARA AND MURABAHA RECEIVABLES (continued)

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

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

	< 30 days SR	*30 - 60 days SR*	*61 – 90 days SR*	*91 – 120 days SR*	*121 – 180 days SR*	*Above 180 days SR*	*Total SR*
31 March 2020 (Unaudited)							
Receivables	**49,313,705**	**43,833,283**	**51,006,960**	**3,618,841**	**26,721,533**	**40,451,217**	**214,945,539**
Delinquent instalments	**1,988,389**	**20,058,158**	**32,896,899**	**1,073,846**	**14,701,432**	**67,191,376**	**137,910,100**
31 December 2019 (Audited)							
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

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

Sector concentration	***31 March 2020 (Unaudited)***	*31 December 2019 (Audited)*
Services	**53.44%**	58.56%
Contracting	**19.37%**	18.60%
Trading	**9.75%**	6.81%
Retail business	**9.07%**	9.51%
Industrial	**8.37%**	6.52%

7 (f) Collateral

The Company in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the receivables. These collaterals mostly include vehicle, machinery and real estate. The collaterals are held against receivables and are managed against relevant exposures at their net realisable values. The value of the collateral as at 31 March 2020 amount to SR 390,055,049 (unaudited) (31 December 2019: SR 416,766,207 (audited)) out of which the Company has pledged SR nil as at 31 March 2020 (unaudited) (31 December 2019: SR 25,669,042 (audited)) against the loan facility from Gulf International Bank (see note 9).

8 SHARE CAPITAL

Share capital is divided into 15,000,000 shares of SR 10 each (unaudited) (31 December 2019: 15,000,000 shares of SR 10 each (audited)).

9 BORROWINGS

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

	31 March 2020 SR (Unaudited)	*31 December 2019 SR (Audited)*
A Bank borrowings	**-**	9,374,362
B Borrowings from a government entity	**85,802,698**	90,173,897
	85,802,698	99,548,259
Current portion	**35,761,038**	31,071,558
Non-current portion	**50,041,660**	68,476,701
	85,802,698	99,548,259

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 (unaudited) (31 December 2019: SR 37.5 million (audited)). As at 31 March 2020, outstanding borrowings amounted to SR nil (unaudited) (31 December 2019: SR 9.4 million (audited)). These term loans were secured by assignment of proceeds from receivables and carry borrowing cost at the floating interest rates of SIBOR plus 3.50% p.a. During the period, the Company has repaid its total outstanding bank borrowings.

B - Borrowings from a government entity
In the prior years, the Company obtained loans from a government entity amounting to SR 125 million. This is to be repaid in monthly instalments commencing from January 2019, with the final instalment of the total loan due in June 2023.

The above loan received by the Company from a government entity carries a fixed special commission rate that is significantly lower than currently prevailing market rate. This loan provided to the Company carries a number of conditions, one of which is that these loans are to be used for providing loans to specific types/sectors of customers at discounted rates. The benefit on these loans amounting to SR nil (unaudited) (31 December 2019: SR 9.22 million (audited)) million being the impact of "lower than market value" loan obtained by the Company was identified and accounted for as a "government grant" initially and was recorded as deferred income and classified within "accounts payable and accruals". Such benefit was being recognised in interim condensed statement of comprehensive income on a systematic basis as the expense for which such grant is intended to compensate is recognised. In 2019, The full amount of government grant was recognised in interim condensed statement of comprehensive income.

10 RELATED PARTIES TRANSACTIONS AND BALANCES

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

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

Compensation of key management personnel of the Company

	Amount of transactions for the three-month period ended 31 March	
	2020 (Unaudited) SR	*2019 (Unaudited) SR*
Remuneration	**451,854**	453,621

11 RISK MANAGEMENT

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

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

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

The sensitivity to an increase/decrease of 15 basis points change in special commission rates on floating rate term loans, with all other variables remaining constant, on the Company's profit or loss for the period/year is a decrease/increase of SR nil (unaudited) (31 December 2019: a decrease/increase of SR 93,744 (audited)).

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

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

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

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

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

	31 March 2020 ***SR*** ***(Unaudited)***	*31 December 2019* *SR* *(Audited)*
Bank balances	**7,938,248**	9,683,664
Restricted cash deposits	**-**	1,237,503
Ijara and Murabaha receivables	**242,903,016**	275,415,940
Investment held at fair value through other comprehensive income	**892,850**	892,850
Other assets	**20,304,946**	5,672,163
	272,039,060	292,902,120

11 RISK MANAGEMENT (continued)

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

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 March 2020 and 31 December 2019 based on contractual undiscounted repayment obligations. The contractual maturities of liabilities have been determined based on the remaining period at the interim condensed statement of financial position date to the contractual maturity date.

31 March 2020 (Unaudited)	***Less than 3 months SR***	***3-12 months SR***	***1-5 years SR***	***Total SR***
Accounts payable and accruals	**2,015,932**	**1,528,055**	**14,688,036**	**18,232,023**
Lease liability	**-**	**1,132,131**	**1,132,131**	**2,264,262**
Borrowings	**9,564,669**	**27,288,549**	**55,399,007**	**92,252,225**
Total	**11,580,601**	**29,948,735**	**71,219,174**	**112,748,510**

31 December 2019 (Audited)	*Less than 3 months SR*	*3-12 months SR*	*1-5 years SR*	*Total SR*
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

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

12 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

12 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

13 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES AND SAMA PROGRAMS

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The Company has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance. The steps taken by management also include commencing review of credit exposure concentrations at a more granular level such as the economic sectors, regions, country, counterparty etc., collateral protection, timely review and customer credit rating actions and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programmes.

These current events and the prevailing economic condition require the Company to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These would primarily revolve around either adjusting macroeconomic factors used by the Company in estimation of expected credit losses. The adjustments to macroeconomic factors and collateral value resulted in an additional ECL of SR 1.2 million for the Company. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgmental, and the Company will continue to reassess its position and the related impact on a regular basis.

At this point in time, it is difficult to ascertain the specific effects the health crisis and government and SAMA support measures, such as the repayment holidays and other mitigating packages, will have. The Company has therefore concluded that it was too early for any potential credit impairment to be reflected through application of the staging criteria and focused on the macroeconomic model underpinning the PD and LGD determinations. The Company will continue to individually assess significant corporate exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA programs and initiatives launched

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the SME sector through empowering and facilitating the financing community. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

13 IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES AND SAMA PROGRAMS (continued)

SAMA programs and initiatives launched (continued)

As part of the deferred payments program, the Company is required to defer payments for six months on the eligible microfinance facilities. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company has effected the payment reliefs by extending the tenure of the applicable financings granted with no additional costs to be borne by the customers. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Company recognising a day 1 modification loss of SR 10.6 million (unaudited) as at 31 March 2020 and this has been presented as part of special commission income. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

Pursuant to SAMA deferred payments program, the Company under an agreement with SAMA, has recorded a receivable amounting to SR 100.75 million (unaudited), as profit-free deposit, which has been received subsequent to the period end. The amount is repayable to SAMA over the period of 3.5 years in equal monthly instalments, with initial grace period of 6 months. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 5.9 million (unaudited), which has been recognised in the interim condensed statement of comprehensive income as at 31 March 2020 immediately. The management has exercised certain judgements in the recognition and measurement of this grant income.

As at 31 March 2020, the Company is only participating in the deferred payment program as mentioned above.

During April 2020, SAMA has issued a guidance around additional COVID-19 support measures for MSMEs that the finance companies will need to undertake in relation to MSMEs deferred payments program. The Company will consider the guidance issued and evaluate the accounting impact in Q2 2020 accordingly.

14 PRIOR PERIOD RESTATEMENTS

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

	For the three-month period ended 31 March 2019 (Unaudited)
	SR
Interim condensed statement of comprehensive income	
Net profit for the period	
Net profit for the period, as previously stated	3,839,035
Adjustment relating to the accounting for zakat charge	(383,904)
Net income for the period, as restated	3,455,131

The change has had no impact on the shareholders' equity and the interim condensed statement of cash flows for the three-month period ended 31 March 2019.

15 EVENTS AFTER REPORTING DATE

There have been no events subsequent to the reporting date that would require adjustments to and/or disclosure in the interim condensed financial statements as at and for the three-month period ended 31 March 2020.

16 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved by the Board of Directors on 21 Ramadan 1441H (corresponding to 14 May 2020).