ABDUL LATIF JAMEEL UNITED REAL ESTATE FINANCE COMPANY

(A SAUDI CLOSED JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2019

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2019

Building a better working world

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Abdul Latif Jameel United Real Estate Finance Company
(A Saudi Closed Joint Stock Company)

Opinion

We have audited the financial statements of Abdul Latif Jameel United Real Estate Finance Company (a Saudi Closed Joint Stock 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 summary of significant accounting policies and other explanatory notes.

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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") as 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, as 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

The Management are responsible for the preparation and fair presentation of the financial statements in accordance with the 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, the applicable requirements of the Regulations for Companies in the Kingdom of Saudi Arabia and Company's By-laws, and for such internal control as Management determine 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, the Management are 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 the Management intend 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.

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 ISAs as 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 ISAs as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Abdul Latif Jameel United Real Estate Finance Company
(A Saudi Closed Joint Stock Company) (continued)

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

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 the 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.
- 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.

We also provide the management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements
Based on the information that has been made available to us while performing our audit procedures, 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 requirements of the Regulations for Companies and Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young
(Public Accountants)

Ahmed I. Reda
Certified Public Accountant
License No. 356

24 February 2020
30 Jumada II 1441H

Jeddah

20/21/MQ

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
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 23)*
Revenues	5	**19,162,530**	18,216,984
Direct costs		**(121,406)**	(103,765)
GROSS PROFIT		**19,041,124**	18,113,219
Net change in present value of assets and liabilities relating to derecognized receivables		**227,672**	216,493
TOTAL OPERATING INCOME		**19,268,796**	18,329,712
Selling and marketing expenses	6	**(2,809,718)**	(2,450,728)
General and administrative expenses	7	**(10,162,482)**	(10,313,806)
Reversal/ (impairment charge) against net investment in finance lease	10(a)	**65,151**	(2,373,257)
TOTAL OPERATING EXPENSES		**(12,907,049)**	(15,137,791)
INCOME FROM OPERATIONS		**6,361,747**	3,191,921
Finance income	13	**2,409,477**	1,405,842
Finance charge	2(d)	**(10,110)**	-
INCOME BEFORE ZAKAT		**8,761,114**	4,597,763
Zakat	8	**(1,809,022)**	8,285,115
NET INCOME FOR THE YEAR		**6,952,092**	12,882,878
OTHER COMPREHENSIVE LOSS			
Items that cannot be reclassified to statement of comprehensive income in subsequent periods:			
Actuarial loss relating to employee benefits liabilities	15	**(123,456)**	(6,000)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**6,828,636**	12,876,878
Basic and diluted earnings per share (expressed in SR per share)	19	**0.28**	0.57

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	***31 December 2019 SR***	*31 December 2018 SR (Restated) (Note 23)*	*1 January 2018 SR (Restated) (Note 23)*
ASSETS				
NON-CURRENT ASSETS				
Property and equipment	9	**1,413,984**	261,619	306,601
Net investment in finance lease	10	**125,141,431**	119,030,258	120,928,287
Investment classified as fair value through other comprehensive income	11	**892,850**	892,850	892,850
Advances to employees		**620,646**	585,828	719,009
TOTAL NON-CURRENT ASSETS		**128,068,911**	120,770,555	122,846,747
CURRENT ASSETS				
Net investment in finance lease	10	**25,844,092**	23,551,497	20,195,038
Due from related parties	18	**160,854**	76,642	93,276
Prepayments and other receivables	12	**9,887,974**	9,964,291	1,580,124
Cash and bank balances	13	**103,144,268**	104,102,557	49,831,622
TOTAL CURRENT ASSETS		**139,037,188**	137,694,987	71,700,060
TOTAL ASSETS		**267,106,099**	258,465,542	194,546,807
SHAREHOLDERS' EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital	1(a)	**250,000,000**	250,000,000	200,000,000
Statutory reserve	14	**33,289**	839	839
Retained earnings/ (accumulated losses)		**292,049**	(6,627,593)	(19,510,471)
Actuarial gains, net		**836,544**	960,000	966,000
TOTAL SHAREHOLDERS' EQUITY		**251,161,882**	244,333,246	181,456,368
NON-CURRENT LIABILITIES				
Employees benefits liabilities	15	**3,543,225**	2,801,899	2,326,516
Other non-current liabilities	16	**1,216,537**	1,056,314	1,268,660
TOTAL NON-CURRENT LIABILITIES		**4,759,762**	3,858,213	3,595,176
CURRENT LIABILITIES				
Due to related parties	18	**9,130**	2,505	31,951
Accounts payable, accrued and other liabilities	17	**11,175,325**	10,271,578	9,463,312
TOTAL CURRENT LIABILITIES		**11,184,455**	10,274,083	9,495,263
TOTAL LIABILITIES		**15,944,217**	14,132,296	13,090,439
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**267,106,099**	258,465,542	194,546,807

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

ABDUL LATIF JAMEEL UNITED REAL ESTATE FINANCE COMPANY
(A SAUDI CLOSED JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

	Share capital SR	*Statutory reserve SR*	*Retained earnings/ (accumulated losses) SR*	*Actuarial gains, net SR*	*Total SR*
Balance as at 1 January 2019 (Restated) (Note 23)	250,000,000	839	(6,627,593)	960,000	244,333,246
Net income for the year	-	-	6,952,092	-	6,952,092
Other comprehensive loss (see note 15)	-	-	-	(123,456)	(123,456)
Total comprehensive income for the year	-	-	6,952,092	(123,456)	6,828,636
Transfer to statutory reserve (note 14)	-	32,450	(32,450)	-	-
Balance as at 31 December 2019	**250,000,000**	**33,289**	**292,049**	**836,544**	**251,161,882**
Balance as at 1 January 2018 (Restated) (Note 23)	200,000,000	839	(19,510,471)	966,000	181,456,368
Issue of share capital (Note 1)	50,000,000	-	-	-	50,000,000
Net income for the year	-	-	12,882,878	-	12,882,878
Other comprehensive loss (see note 15)	-	-	-	(6,000)	(6,000)
Total comprehensive income for the year	-	-	12,882,878	(6,000)	12,876,878
Balance as at 31 December 2018 (Restated) (Note 23)	250,000,000	839	(6,627,593)	960,000	244,333,246

The attached notes 1 to 24 form an integral 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		**8,761,114**	4,597,763
Adjustments to reconcile income before zakat to net cash flows:			
Depreciation	9	**233,505**	199,263
(Reversal)/impairment charge against net investment in finance lease	10(a)	**(65,151)**	2,373,257
Net change in present value of assets and liabilities relating to derecognised Receivables		**(227,672)**	(216,493)
Provision for employees' benefits liabilities	15	**705,280**	343,000
Finance income		**(2,409,477)**	(1,405,842)
Finance charge	2(d)	**10,110**	-
		7,007,709	5,890,948
Changes in operating assets and liabilities:			
Net investment in finance lease		**(8,110,945)**	(3,615,194)
Prepayments, other receivables and advances to employees		**(499,121)**	903,714
Due from related parties		**(84,212)**	16,634
Accounts payable, accrued and other liabilities		**(813,359)**	1,137,129
Due to related parties		**6,625**	105,689
Net cash (used in)/from operations		**(2,493,303)**	4,438,920
Zakat paid	8	**(459,776)**	(1,000,209)
Employees benefits liabilities paid	15	**(87,410)**	(8,752)
Net cash (used in)/ from operating activities		**(3,040,489)**	3,429,959
INVESTING ACTIVITIES			
Purchase of property and equipment	9	**(626,647)**	(154,281)
Finance income received		**2,708,847**	995,257
Murabaha deposits		**47,336,203**	(50,362,501)
Net cash from/ (used in) investing activities		**49,418,403**	(49,521,525)
FINANCING ACTIVITY			
Issue of share capital	1	**-**	50,000,000
Cash from financing activity		**-**	50,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**46,377,914**	3,908,434
Cash and cash equivalents at the beginning of the year		**53,740,056**	49,831,622
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	13	**100,117,970**	53,740,056
NON-CASH TRANSACTIONS:			
Right-of-use asset	9	**759,223**	-
Employee benefits liabilities transferred in, net	15	**-**	135,135
Actuarial loss relating to employee benefits liabilities	15	**123,456**	6,000
Impact on opening equity on adoption of IFRS 9	10(a)	**-**	225,143
Zakat refundable relating to prior years	8	**-**	8,744,115

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

1 ORGANIZATION AND ACTIVITIES

Abdul Latif Jameel United Real Estate Finance Company (the "Company") is a Saudi Closed Joint Stock Company, initially registered in the Kingdom of Saudi Arabia as a Limited Liability Company under Commercial Registration number 4030213864, issued on 18 Rajab 1432H (corresponding to 20 June 2011).

The Company's head office is in Jeddah. The principal activity of the Company is to engage in the financing of real estate in the Kingdom of Saudi Arabia.

On 15 Safar 1436H (corresponding to 7 December 2014), the Company received a license from Saudi Arabian Monetary Authority ("SAMA") to undertake real estate finance activities in the Kingdom of Saudi Arabia under license number 27/PU/201412 for five years from the date of issuance. During the year, the Company renewed its license for another five years until 13 Safar 1446H (corresponding to 17 August 2024).

a) Share capital of the Company

The share capital of the Company as at 1 January 2018 was owned as follows:

	No. of shares of SR 10 each	*1 January 2018 SR*
Bader First United Company Limited	200,000	2,000,000
Najed Al Raeda United Company Limited	200,000	2,000,000
Taif First United Company Limited	200,000	2,000,000
Al Mumaizah United Services Company Limited	200,000	2,000,000
Al Mumaizah United Commerce Company Limited	19,200,000	192,000,000
	20,000,000	200,000,000

On 25 Jumada II 1439H (corresponding to 13 March 2018), the shareholders of the Company resolved to increase the share capital by SR 50,000,000 (5,000,000 shares at SR 10 of each). The share capital were increased in proportion to the shareholding pattern as of the capital increase date. The legal formalities in this respect were completed on 10 Shawwal 1439H (corresponding to 24 June 2018). Accordingly, the share capital of the Company as at 31 December 2019, 31 December 2018 is owned as follows:

	No. of shares of SR 10 each	*31 December 2019 SR*	*31 December 2018 SR*
Bader First United Company Limited	250,000	**2,500,000**	2,500,000
Najed Al Raeda United Company Limited	250,000	**2,500,000**	2,500,000
Taif First United Company Limited	250,000	**2,500,000**	2,500,000
Al Mumaizah United Services Company Limited	250,000	**2,500,000**	2,500,000
Al Mumaizah United Commerce Company Limited	24,000,000	**240,000,000**	240,000,000
	25,000,000	**250,000,000**	250,000,000

The Company is a subsidiary of Al Mumaizah United Commerce Company Limited (the "Parent Company"). The ultimate parent of the Company is United Instalment Sales Company Limited ("UIS" or "Ultimate Parent"). The Company, its parent and the ultimate parent of the Company are wholly owned by Saudi shareholders.

b) Branches of the Company

As at 31 December 2019, the Company operates through 3 branches (31 December 2018: 3 branches; 1 January 2018: 3 branches). The accompanying financial statements include the assets, liabilities and results of these branches.

2 BASIS OF PREPARATION

a) Statement of compliance

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 year ended 31 December 2018, respectively, were prepared in compliance with the International Financial Reporting Standards ("IFRS") 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 and the effects of this change are disclosed in note 23 to the financial statements).

Further, the Company has adopted IFRS 16 "Leases" from 1 January 2019 and accounting policies are disclosed in the note 3. 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 2(e) and 3 below.

b) Basis of measurement

These financial statements are prepared under the historical cost convention using the accrual basis of accounting, except for 'Investment classified as fair value through other comprehensive income (FVOCI)' and employees' benefits liabilities, where actuarial present value calculations are used.

c) Functional and presentation currency

These financial statements have been presented in Saudi Riyals, which is the functional and presentational currency of the Company.

d) Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRSs as endorsed in KSA, requires the use of certain critical accounting estimates, assumptions and judgments that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

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 on the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

Determination of servicing liability

As explained in note 21, under the purchase and agency agreement, the Company has been appointed by the bank to service the receivables purchased by the bank. Assumptions used to calculate the servicing assets / liability are based on estimates of collection costs to be incurred by the Company over the life of the purchase and agency agreement.

2 BASIS OF PREPARATION (continued)

d) Significant accounting judgments, estimates and assumptions (continued)

Determination of expected defaults and discounts
As also explained in note 21, in order to calculate the net deferred consideration receivable under the purchase and agency agreement, the Company uses assumptions to calculate the allowance for delinquent receivables and discounts for premature termination on contracts based on historical trends and future expectations which are updated periodically (at least once in a year or more frequently when needed) based on a change in circumstances which indicate that the historical rates may not be appropriate.

Determination of discount rate for present value calculations
Discount rates represent the current market assessment of the risks specific to each cash flow stream, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Company and is derived from recent market transactions and a market yields overview.

Actuarial valuation of employee benefits liabilities
The cost of the end-of-service and ex-gratia benefits (“employee benefits”) under defined unfunded benefit plans is determined using an actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexity of the valuation and its long-term nature, a defined unfunded benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed on an annual basis or more frequently, if required.

Fair value measurement of financial instruments
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Useful lives of property and equipment
The management determines the estimated useful lives of its property and equipment for calculating depreciation. 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 charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment of non-financial assets
The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-zakat discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

Impairment of financial assets
The measurement of impairment losses 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 model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

2 BASIS OF PREPARATION (continued)

d) Significant accounting judgments, estimates and assumptions (continued)

Impairment of financial assets (continued)

Elements of the ECL model that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns Probabilities of Default (PDs) to the individual pool of receivables
- 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 Expected Credit Loss (LTECL) 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 unemployment levels, and the effect on PDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL model

At the reporting date, outstanding receivables under finance lease was SR 155,417,063 (31 December 2018: SR 147,078,446; 1 January 2018: SR 143,246,759), and the allowance for doubtful debts relating to finance lease was SR 4,431,540 (31 December 2018: SR 4,496,691; 1 January 2018: SR 2,123,434) (see note 10). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income of those periods.

Significant judgement in determining the lease term of contracts with renewal and termination 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.

If the Company has the option, under its leases to lease the assets for additional terms, the Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew or to terminate the lease. That is, 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 or to terminate (e.g., a change in business strategy). The Company does not have any renewal option for lease contracts that have lease term of 12 months or less.

Leases – Estimating the incremental borrowing rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

2 BASIS OF PREPARATION (continued)

d) Significant accounting judgments, estimates and assumptions (continued)

Amounts recognised in the statement of financial position and comprehensive income

	Statement of financial position	
	Property and equipment (Right-of-use asset) *SR*	**Lease Liability** *SR*
As at 1 January 2019 (note 2(e) and 9)	361,472	287,222
Additions during the year (note 9)	397,751	311,751
Depreciation expense (note (a) below and note 6)	(73,520)	-
Interest expense	-	10,110
Payments made	-	(81,000)
As at 31 December 2019	**685,703**	**528,083**

a) The Company recognised depreciation expense relating to right-of-use asset and interest expense relating to the lease liability which are presented under ‘selling and marketing expenses’ and ‘finance charge’, respectively.

b) As at 31 December 2019 right-of-use asset is recorded as part of ‘property and equipment’ (note 9) amounting to SR 759,223 and non-current portion of lease liability has been classified under “other non-current liability” amounting to SR 380,589 and current portion of lease liability under “accounts payable, accrued and other liabilities” amounting to SR 147,494.

e) Impact of new standards, interpretations and amendments adopted by the Company

Effective 1 January 2019, the Company has adopted IFRS 16 “Leases” for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. 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’).

2 BASIS OF PREPARATION (continued)

e) Impact of new standards, interpretations and amendments adopted by the Company (continued)

IFRS 16 Leases (continued)

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

	1 January 2019 SR
Assets	
Right of use asset included under ‘property and equipment’	361,472
Prepayments and other receivables	(74,250)
Total assets	287,222
Liabilities	
Other non-current liabilities – non-current portion	210,079
Accounts payable, accrued and other liabilities – current portion	77,143
Total liabilities	287,222

The adoption of IFRS 16 did not have any significant impact on equity as at 1 January 2019.
The Company has lease contracts for various branches and before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased branch was not capitalised and the lease payments were recognised as rent expense in statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under “Prepayments and other receivables” and “Accounts payable, accrued and other liabilities”, respectively.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

Leases previously accounted for as operating leases
The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application

The Company also applied the available practical expedients wherein it:
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Based on the foregoing, as at 1 January 2019:
- Right-of -use asset of SR 361,472 was recognised and presented within property and equipment in the statement of financial position (see note 9).
- Lease liability of SR 287,222 were recognized and classified into current and non-current portions in accounts payable, accrued and other liabilities and other non-current liabilities, respectively.
- Prepayments of SR 74,250 related to previous operating lease was derecognised.

2 BASIS OF PREPARATION (continued)

e) Impact of new standards, interpretations and amendments adopted by the Company (continued)

IFRS 16 Leases (continued)

The lease liability as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	SR
Operating lease commitments as at 31 December 2018	520,000
Weighted average incremental borrowing rate as at 1 January 2019	5%
Discounted operating lease commitments at 1 January 2019	402,222
Less:	
Commitments relating to short-term leases	(75,000)
Commitments relating to leases of low-value assets	(40,000)
Lease liabilities as at 1 January 2019	287,222

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments had no impact on the financial statements of the Company.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in statement of income. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

2 BASIS OF PREPARATION (continued)

e) Impact of new standards, interpretations and amendments adopted by the Company (continued)

Amendments to IAS 28: Long-term interests in associates and joint ventures
The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Company does not have any such long-term interests, the amendments do not have any impact on its financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The amendments to IFRS 10 and IAS 28 have no impact on the Company.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations - The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments have no impact on the Company.

IFRS 11 Joint Arrangements - A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Company.

IAS 23 Borrowing Costs - The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. These amendments are not applicable to the Company.

2 BASIS OF PREPARATION (continued)

f) Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective, up to the reporting date are disclosed below. The Company intends to adopt these standards, when they become effective.

Amendments to IFRS 3: Definition of a business
The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities.

The amendments apply to annual periods beginning on or after 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company is not affected by these amendments.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed. These amendments are not applicable to the Company.

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 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 clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments apply to annual periods beginning on or after 1 January 2020 and must be applied prospectively. Early application is permitted and must be disclosed. The Company is not expecting any change due to adoption of these amendments

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted for the preparation of these financial statements are as follows:

Current versus non-current classification
The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is 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 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.

Fair value measurement
The Company measures investment classified as available-for-sale at fair value at each statement of financial position date.

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.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continue)
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue recognition
Leasing
Gross investment in finance lease represents the gross lease payments receivable by the Company, and the net investment represents the present value of these lease payments discounted at interest rate implicit in the lease. The difference between the gross investment and the net investment is recognised as unearned finance income. Finance lease income is recognised over the period of the lease on a systematic basis, which results in a constant periodic rate of return on the net investment outstanding.

Contract fee income
Contract fee income less any directly attributable expenses is deferred and recognized over the period of the contract, as an adjustment to the effective interest rate.

Income from purchase and agency agreements
Income from purchase and agency arrangements represents management fees due under the purchase and agency agreements with certain banks and is recognised on an accrual basis.

Finance income
Finance income is recognised on an accrual basis using the effective yield basis.

Expenses
Selling and marketing expenses principally comprise of costs incurred in the marketing and sale of the Company's products / services. All other expenses are classified as general and administrative expenses.

General and administrative expenses include direct and indirect costs not specifically part of the operating activities of the Company. Allocations between general and administrative expenses and direct costs, when required, are made on a consistent basis.

Foreign currency translation
Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment
Depreciable property and equipment are stated at cost less accumulated depreciation and impairment in value, if any. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The estimated rates of depreciation of the principal classes of assets are as follows:

The estimated rates of depreciation of the principal classes of assets are as follows:

Furniture, fixtures and office equipment	20% - 25%
Computer equipment	33.33%

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

Capital work-in-progress
Capital work-in-progress represents all costs relating directly and indirectly to the project in progress and is capitalized as property and equipment when the project is completed.

Impairment of non-current 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 of continuing operations are recognized in the statement of comprehensive income if those expense categories are consistent with the function of the impaired asset. For assets excluding 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 the statement of comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income statement ("FVIS").

Financial Asset at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVIS:
- 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 Asset 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 FVIS:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); 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.

- *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 Asset at FVIS
All other financial assets are classified as measured at FVIS.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVIS 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 under 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)
Classification of financial assets (continued)

Business model assessment (continued)

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 FVIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and interest ("SPPI" criteria)
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.

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.

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

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 derecognised) 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 recognised in OCI is recognised in statement of comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Derecognition (continued)

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in statement of income 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
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

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 derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised 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 the statement of income. 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 interest 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 recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in statement of income.

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

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

No impairment loss is recognised on equity investments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment (continued)

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 the 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 is recognize the impairment allowance based on life time PD.

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., unemployment, GDP growth, inflation, profit rates and house 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 derecognised 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 special commission rate of the existing financial asset.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment (continued)

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortised cost 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

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 making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors.
- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL against financial assets measured at amortised cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

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

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. The Company's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of collateral does not affect the calculation of ECLs. The value of the collateral is determined at inception.

Collateral repossessed
The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. 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.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties purchased for lease contracts
Properties purchased for lease contracts are recognised in the statement of financial position as a current asset. Amounts payable to the landlord are recorded under current liabilities in the statement of financial position. Once the legal title of the property is transferred in the Company's name and the finance lease contract is signed with the customer, these assets become part of the net investment in finance lease.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a discount rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Employee benefits liabilities
These represent end-of-service and ex-gratia benefits ("employee benefits") under defined unfunded benefit plans. End-of-service benefits, as required by Saudi Arabia Labor Law, are required to be provided based on the employees' length of service. Ex-gratia benefits represent additional post-employment benefits payable to those employees who leave the Company after completing a minimum of ten years of service.

The Company's net obligations in respect of defined unfunded benefit plans ("the obligations") is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs.

The discount rate used is the market yield on high quality corporate bonds at the reporting date that has maturity dates and the risk profile approximating the terms of the Company's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Company's present value of the obligation, with actuarial valuations to be carried out every third year and updated for the following two years for material changes, if any. The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized. Currently there are no past service costs. The full amount of actuarial gains and losses are recognized in statement of changes in shareholders' equity in the year in which they arise.

Right-of-use assets
The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Currently, right-of-use assets are depreciated at 20%. 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease Liabilities (continued)
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 remeasured 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 (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered 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.

Change in the accounting for zakat
As mentioned in note 2(a), the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat charge was recognized in the statement of changes in shareholders’ equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed in note 23 to the financial statements. The change has had no impact on the statement of changes in shareholders’ equity and statement of cash flows for the year ended 31 December 2018 as a result of the above circular.

Zakat
The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (“GAZT”). Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

Cash and bank balances
For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash in bank and short-term murabaha deposits with original maturity of three months or less.

Statutory reserve
As required by the regulations for companies, the Company has established a statutory reserve by the appropriation of at least 10% of net income (after deducting any brought forward accumulated losses). The shareholders may resolve to discontinue such transfer when the reserve equals 30% of the share capital. This reserve is not available for dividend distribution (see note 14).

4 SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. The Company carries out its activities entirely in the Kingdom of Saudi Arabia and is engaged in providing real estate to customers on finance lease, as a result, the operations of the Company have been considered as one segment.

5 REVENUES

	31 December 2019 SR	*31 December 2018 SR*
Income from finance leases	**18,818,329**	17,867,442
Contract fee income	**216,805**	214,362
Income from purchase and agency agreement	**127,396**	135,180
	19,162,530	18,216,984

6 SELLING AND MARKETING EXPENSES

	31 December 2019 SR	*31 December 2018 SR*
Salaries and related cost	**2,058,822**	1,783,780
Rent	**107,500**	188,667
Advertising	**288,750**	291,520
Depreciation (note 2 (d))	**73,520**	-
Other	**281,126**	186,761
	2,809,718	2,450,728

7 GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2019 SR	*31 December 2018 SR*
Salaries and related cost	**6,889,223**	6,626,053
Depreciation (note 9)	**159,985**	199,263
Professional charges	**1,238,658**	1,121,684
Expenses recharged (note 18)	**1,015,534**	1,532,254
Others	**859,082**	834,552
	10,162,482	10,313,806

8 ZAKAT

The principal elements of the zakat base are as follows:

	31 December 2019 SR	*31 December 2018 SR*
Opening shareholders' equity	**244,333,246**	181,456,368
Non-current assets	**128,068,911**	120,770,555
Non-current liabilities	**4,759,762**	3,858,213
Net income before zakat	**8,761,114**	4,597,763

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

The movement in zakat payable is as follows:

	31 December 2019 SR	*31 December 2018 SR*
Balance at the beginning of the year	**587,144**	1,128,353
Charge/(reversal) for the year		
Charge for the current year	**1,809,022**	459,000
Adjustment relating to prior years	**-**	(8,744,115)
	1,809,022	(8,285,115)
Paid during the year	**(459,776)**	(1,000,209)
Transfer to other receivables	**-**	8,744,115
	1,936,390	587,144

During the year ended 31 December 2018, the Company recorded a net reversal of SR 8.7 million relating to the prior years.

Status of zakat assessments

The Company has submitted zakat declarations for the period from 20 June 2011 to 31 December 2011 and for the years ended 31 December 2012 to 31 December 2018 to GAZT. The zakat declarations regarding the period from 20 June 2011 to 31 December 2011 and for the years ended 31 December 2012 and 31 December 2013 are currently being reviewed by GAZT, while the declarations for the years 2014 to 2018 have been finalized. The Company has a zakat certificate valid up to 30 April 2020.

9 PROPERTY AND EQUIPMENT

	Furniture fixtures and office equipment SR	*Computer equipment SR*	*Right-of-use asset (see note 2(e)) SR*	*Capital work in progress (see note (a)) SR*	***Total 31 December 2019 SR***
Cost:					
At the beginning of the year	1,037,235	4,748,271	-	-	**5,785,506**
Impact of first time adoption of IFRS 16 (note 2(e))	-	-	361,472	-	**361,472**
	1,037,235	4,748,271	361,472	-	**6,146,978**
Additions during the year	43,204	155,296	397,751	428,147	**1,024,398**
At 31 December 2019	**1,080,439**	**4,903,567**	**759,223**	**428,147**	**7,171,376**
Accumulated depreciation:					
At the beginning of the year	946,186	4,577,701	-	-	**5,523,887**
Charge for the year	67,001	92,984	73,520	-	**233,505**
At 31 December 2019	**1,013,187**	**4,670,685**	**73,520**	-	**5,757,392**
Net book value:					
At 31 December 2019	**67,252**	**232,882**	**685,703**	**428,147**	**1,413,984**

(a) The capital work in progress as at year end represents cost incurred in relation to system upgrade, which is still in progress as at 31 December 2019.

9 PROPERTY AND EQUIPMENT (continued)

	Furniture fixtures and office equipment *SR*	*Computer equipment* *SR*	*Capital work in progress* *SR*	*Total 31 December 2018* *SR*	*Total 1 January 2018* *SR*
Cost:					
At the beginning of the year	1,022,062	4,570,313	38,850	5,631,225	5,572,380
Additions during the year	15,173	46,494	92,614	154,281	70,150
Transfers	-	131,464	(131,464)	-	-
Disposal during the year	-	-	-	-	(11,305)
At 31 December 2018	1,037,235	4,748,271	-	5,785,506	5,631,225
Accumulated depreciation:					
At the beginning of the year	875,355	4,449,269	-	5,324,624	3,690,948
Charge for the year (note 7)	70,831	128,432	-	199,263	1,644,976
Disposals during the year	-	-	-	-	(11,300)
At 31 December 2018	946,186	4,577,701	-	5,523,887	5,324,624
Net book value:					
At 31 December 2018	91,049	170,570	-	261,619	
At 1 January 2018	146,707	121,044	38,850		306,601

10 NET INVESTMENT IN FINANCE LEASE

	31 December 2019 SR	*31 December 2018 SR*	*1 January 2018 SR*
Gross investment in finance lease	**224,476,403**	210,196,603	209,846,612
Less: unearned finance income	**(69,059,340)**	(63,118,157)	(66,599,853)
	155,417,063	147,078,446	143,246,759
Less: allowance for doubtful debts (note a)	**(4,431,540)**	(4,496,691)	(2,123,434)
Net investment in finance lease	**150,985,523**	142,581,755	141,123,325

31 December 2019	***Years***	***Gross investment SR***	***Unearned finance income SR***	***Allowance for doubtful debts SR***	***Net Investment SR***
Current portion	2020	**47,641,477**	**(17,365,845)**	**(4,431,540)**	**25,844,092**
Non-current portion	2021	**37,896,642**	**(14,200,619)**	**-**	**23,696,023**
	2022	**33,725,998**	**(11,271,735)**	**-**	**22,454,263**
	2023	**29,887,853**	**(8,524,683)**	**-**	**21,363,170**
	2024	**24,418,895**	**(5,917,539)**	**-**	**18,501,356**
	2025 and onwards	**50,905,538**	**(11,778,919)**	**-**	**39,126,619**
Non-current portion		**176,834,926**	**(51,693,495)**	**-**	**125,141,431**
Total		**224,476,403**	**(69,059,340)**	**(4,431,540)**	**150,985,523**

31 December 2018	*Years*	*Gross investment SR*	*Unearned finance income SR*	*Allowance for doubtful debts SR*	*Net Investment SR*
Current portion	2019	44,236,408	(16,188,220)	(4,496,691)	23,551,497
Non-current portion	2020	37,249,488	(13,164,899)	-	24,084,589
	2021	31,178,669	(10,337,128)	-	20,841,541
	2022	26,576,454	(7,876,451)	-	18,700,003
	2023	23,245,109	(5,670,916)	-	17,574,193
	2024 and onwards	47,710,475	(9,880,543)	-	37,829,932
Non-current portion		165,960,195	(46,929,937)	-	119,030,258
Total		210,196,603	(63,118,157)	(4,496,691)	142,581,755

10 NET INVESTMENT IN FINANCE LEASE (continued)

1 January 2018	*Years*	*Gross investment SR*	*Unearned finance income SR*	*Allowance for doubtful debts SR*	*Net Investment SR*
Current portion	2018	38,468,010	(16,149,538)	(2,123,434)	20,195,038
Non-current portion	2019	35,591,987	(13,431,168)	-	22,160,819
	2020	32,012,299	(10,709,730)	-	21,302,569
	2021	26,268,763	(8,289,386)	-	17,979,377
	2022	22,259,853	(6,170,765)	-	16,089,088
	2023 and onwards	55,245,700	(11,849,266)	-	43,396,434
Non-current portion		171,378,602	(50,450,315)	-	120,928,287
Total		209,846,612	(66,599,853)	(2,123,434)	141,123,325

a) The movement in allowance for doubtful debts is given below:

	2019 SR	*2018 SR*
At 1 January	**4,496,691**	2,348,577
Impact of initial adoption of IFRS 9	**-**	(225,143)
(Reversed)/provided during the year	**(65,151)**	2,373,257
	4,431,540	4,496,691

b) The ageing of gross finance lease receivables which are past due is as follows:

	31 December 2019 SR	*31 December* 2018 *SR*	*1 January 2018 SR*
1 – 3 months	**1,433,271**	1,803,912	1,051,130
4 – 6 months	**1,258,241**	942,002	255,190
7 – 12 months	**1,323,523**	1,076,695	64,349
Over 12 months	**519,324**	385,014	-
	4,534,359	4,207,623	1,370,669

The not yet due portion of above overdue finance lease receivables as of 31 December 2019 amounts to SR 32,053,036 (31 December 2018: SR 45,312,672; 1 January 2018: SR 36,198,369).

The Company in ordinary course of its business, holds collateral in respect of the finance lease receivables (being the title of properties leased out) in order to mitigate the credit risk associated with them. These collaterals (i.e. real estate) are not readily convertible into cash and are accepted by the Company with intent to dispose off in case of customer default.

11 INVESTMENT CLASSIFIED AS FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 14 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.

12 PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2019 SR	*31 December 2018 SR*	*1 January 2018 SR*
Prepaid expenses	**382,044**	501,716	293,889
Employees' receivables – current portion	**692,351**	644,576	554,762
Other receivables	**8,813,579**	8,817,999	731,473
	9,887,974	9,964,291	1,580,124

13 CASH AND BANK BALANCES

	31 December 2019 SR	*31 December 2018 SR*	*1 January 2018 SR*
Cash and cash equivalents	**100,117,970**	53,740,056	49,831,622
Murabaha deposits (original maturity of more than 3 months)	**3,026,298**	50,362,501	-
	103,144,268	104,102,557	49,831,622

During the year, the Company earned SR 2,409,477 (31 December 2018: SR 1,405,842) on these murabaha deposits at the rate of return ranging from 1.9% to 3.15% (31 December 2018: 1.5% to 3.15%).

At 31 December 2019, cash and bank balances include murabaha deposits of SR 3.03 million (31 December 2018: SR 2.4 million; 1 January 2018: SR 2.6 million) representing amounts set aside in respect of employee benefits liabilities.

14 STATUTORY RESERVE

As per the requirements of the regulations for Companies, the Company has established a statutory reserve by the appropriation of at least 10% of net income (after deducting any brought forward accumulated losses). The shareholders may resolve to discontinue such transfer when the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

15 EMPLOYEE BENEFITS LIABILITIES

The main financial assumptions used to calculate the indicative defined unfunded benefit plans liabilities are as follows:

	31 December 2019	31 December 2018	1 January 2018
Discount rate	**3.55%**	4.50%	4.50%
Expected rate of salary increase	**2.50%**	2.50%	2.50%

15 EMPLOYEE BENEFITS LIABILITIES (continued)

The amounts recognized in the statement of comprehensive income in respect of these benefits are as follows:

	31 December 2019 SR	*31 December 2018 SR*
Current service cost (notes 15.1 and 15.2)	**288,000**	240,000
Past service cost (notes 15.1 and 15.2)	**294,280**	
Interest cost (notes 15.1 and 15.2)	**123,000**	103,000
	705,280	343,000

	31 December 2019 SR	*31 December 2018 SR*
Actuarial loss adjustment for end of service benefits (note 15.1)	**59,820**	22,000
Actuarial loss/(gain) adjustment for ex-gratia benefits (note 15.2)	**63,636**	(16,000)
	123,456	6,000

The present value of total employee benefits liabilities is as follows:

	31 December 2019 SR	*31 December 2018 SR*	*1 January 2018 SR*
End-of-service benefits (note 15.1)	**1,835,722**	1,479,898	1,229,954
Ex-gratia benefits (note 15.2)	**1,707,503**	1,322,001	1,096,562
	3,543,225	2,801,899	2,326,516

15.1 The movement in the present value of the end-of-service benefits is as follows:

	2019 SR	*2018 SR*
At the beginning of the year	**1,479,898**	1,229,954
Current service cost	**163,000**	135,000
Past service cost	**155,414**	-
Interest cost	**65,000**	54,000
Adjustment for actuarial losses	**59,820**	22,000
Benefits paid	**(87,410)**	(8,752)
Transferred during the year, net (note 18)	**-**	47,696
At 31 December	**1,835,722**	1,479,898

15 EMPLOYEE BENEFITS LIABILITIES (continued)

15.2 The movement in the present value of the ex-gratia benefits is as follows:

	2019 ***SR***	*2018* *SR*
At beginning of the year	**1,322,001**	1,096,562
Current service cost	**125,000**	105,000
Past service cost	**138,866**	
Interest cost	**58,000**	49,000
Adjustment for actuarial loss/(gains)	**63,636**	(16,000)
Transferred during the year, net (note 18)	**-**	87,439
At 31 December	**1,707,503**	1,322,001

Sensitivity analysis
Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

End of service benefits	**31 December 2019**		31 December 2018	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(185,650)	188,510	(144,898)	160,102
Future salary growth (1% movement)	203,079	(203,079)	160,102	(144,898)

Ex-gratia benefits	**31 December 2019**		31 December 2018	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(179,100)	181,900	(138,001)	153,999
Future salary growth (1% movement)	196,312	(196,312)	153,999	(138,001)

16 OTHER NON-CURRENT LIABILITIES

	31 December 2019 ***SR***	*31 December 2018* *SR*	*1 January 2018* *SR*
Present value of net servicing liability – non-current portion (note 21(e))	**835,948**	1,056,314	1,268,660
Lease liability – non-current portion (note 2(e))	**380,589**	-	-
	1,216,537	1,056,314	1,268,660

17 ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	31 December 2019 SR	*31 December 2018 SR (Restated) (Note 23)*	*1 January 2018 SR (Restated) (Note 23)*
Accrued expenses	**2,087,743**	2,018,873	1,849,306
Advances from customers	**2,609,174**	2,036,626	2,831,430
Zakat and other payable	**2,128,186**	1,366,199	2,242,096
Payable under purchase and agency agreement (note 21(b))	**350,566**	1,642,983	-
Present value of net servicing liability – current portion (note 21(e))	**296,722**	304,033	308,173
Provision for expected defaults and discounts under purchase and agency agreement (note 21(d))	**3,555,440**	2,902,864	2,232,307
Lease liability – current portion (note 2(e))	**147,494**	-	-
	11,175,325	10,271,578	9,463,312

18 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

i) Following are the details of related party transactions during the year:

Related party	**Nature of transaction**	***2019 SR***	*2018 SR*
Ultimate Parent	Collections from Company's customers	-	22,229
Affiliates	Purchases	**66,096**	284,520
	Collections from Company's customers	**333,522**	311,004
	Expenses recharged (note 7)	**1,015,534**	1,532,254
	Employee benefits liabilities transferred - net (note 15)	-	135,135
	Employees' advances transferred – net	-	41,376
	Reimbursement of medical insurance expenses	-	51,237
	Charges for customer evaluations prior to lease (excluding value added tax 'VAT')	**58,177**	35,765

18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

ii) Due from related parties comprise the following:

	31 December 2019 SR	*31 December 2018 SR*	*1 January 2018 SR*
Abdul Latif Jameel Company Limited	**139,723**	-	-
Al Mumaizah United Commerce Company Limited	**4,000**	-	-
Abdul Latif Jameel Retail Company Limited	**7,145**	28,114	40,608
Abdul Latif Jameel United Finance Company (a Saudi Closed Joint Stock Company)	**-**	21,722	20,722
Abdul Latif Jameel Lands Company Limited	**5,625**	13,658	6,190
Abdul Latif Jameel Technology Products Company Limited	**4,361**	8,669	-
Abdul Latif Jameel Import and Distribution Company Limited	-	4,479	7,465
United Instalment Sales Company Limited (“Ultimate Parent”)	-	-	16,451
Abdul Latif Jameel Bodywork & Paint Company Limited	-	-	1,840
	160,854	76,642	93,276

ii) Due to related parties comprise the following:

	31 December 2019 SR	*31 December 2018 SR*	*1 January 2018 SR*
Abdul Latif Jameel Company for Information and Services Limited	**9,130**	2,197	1,500
Abdul Latif Jameel Company Limited	-	308	26,000
Abdul Latif Jameel Technology Products Company Limited	-	-	1,837
Other	-	-	2,614
	9,130	2,505	31,951

iv) The total amount of compensation paid to key management personnel during the year is as follows:

	2019 SR	*2018 SR*
Remuneration	**1,451,113**	1,589,790
Short-term employees benefits	**1,660,000**	1,810,000
Employees benefits liabilities	**329,568**	135,312
	3,440,681	3,535,102

The Company's key management personnel include members of the Board and Board related committees (Risk and Audit Committee etc.).

19 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the income for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. The calculation of diluted earnings per share is not applicable to the Company. The basic and diluted earnings per share are calculated as follows:

	2019 ***SR***	*2018* *SR* *(Restated)* *(Note 23)*
Net income for the year	**6,952,092**	12,882,878
Weighted average number of ordinary shares (note 1(a))	**25,000,000**	22,600,000
Basic and diluted income per share (expressed in SR per share)	**0.28**	0.57

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to interest rate risk, liquidity risk, credit risk and currency risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by the Group's Treasury Department that advises on the financial risks and the appropriate financial risk governance framework. The Treasury Department provides assurance to the senior management that the financial risk activities are governed by appropriate policies and procedures and that the financial risks are identified, measured and managed in accordance with the policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Before entering into purchase and agency arrangement with bank, the Company is exposed to interest rate fair value risk on its financial assets to be sold. The Company monitors the market interest rate movements and negotiates the terms of the agreement with bank and, if appropriate, the management decides to sell the receivables to the banks. The Company had realized gains on sale of these financial assets.

The Company does not have floating interest bearing short-term deposits. Accordingly, the Company is not exposed to any significant interest rate risk.

Interest rate sensitivity of assets, liabilities and off statement of financial position items
The Company manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Company's exposure to interest rate risks. Included are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Company is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities 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.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

31 December 2019	*Interest bearing* *Within 1 year* *SR*	*1 to 5 years* *SR*	*Over 5 years* *SR*	*Non-interest bearing* *SR*	*Total* *SR*
Assets					
Property and equipment	-	-	-	1,413,984	**1,413,984**
Net investment in finance lease	25,844,092	86,014,814	39,126,617	-	**150,985,523**
Investment classified as fair value through other comprehensive income	-	-	-	892,850	**892,850**
Due from related parties	-	-	-	160,854	**160,854**
Prepayments and other receivables	-	-	-	10,508,620	**10,508,620**
Cash and bank balances	73,225,590	-	-	29,918,678	**103,144,268**
Total assets	**99,069,682**	**86,014,814**	**39,126,617**	**42,894,986**	**267,106,099**
Liabilities					
Employee benefits liabilities	-	-	-	3,543,225	**3,543,225**
Other non-current liability	-	-	-	1,216,537	**1,216,537**
Due to related parties	-	-	-	9,130	**9,130**
Accounts payable, accrued and other liabilities	-	-	-	11,175,325	**11,175,325**
Total liabilities	-	-	-	**15,944,217**	**15,944,217**
Gap	**99,069,682**	**86,014,814**	**39,126,617**	**26,950,769**	**251,161,882**

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate sensitivity of assets, liabilities and off statement of financial position items (continued)

	Interest bearing			*Non-interest*	
31 December 2018	*Within 1 year*	*1 to 5 years*	*Over 5 years*	*bearing*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*
Assets					
Property and equipment	-	-	-	261,619	261,619
Net investment in finance lease	23,551,497	81,200,326	37,829,932	-	142,581,755
Investment classified as fair value through other comprehensive income	-	-	-	892,850	892,850
Due from related parties	-	-	-	76,642	76,642
Prepayments and other receivables	-	-	-	10,550,119	10,550,119
Cash and bank balances	97,863,011	-	-	6,239,546	104,102,557
Total assets	121,414,508	81,200,326	37,829,932	18,020,776	258,465,542
Liabilities					
Employee benefits liabilities	-	-	-	2,801,899	2,801,899
Other non-current liability	-	-	-	1,056,314	1,056,314
Due to related parties	-	-	-	2,505	2,505
Accounts payable, accrued and other liabilities	-	-	-	10,271,578	10,271,578
Total liabilities	-	-	-	14,132,296	14,132,296
Gap	121,414,508	81,200,326	37,829,932	3,888,480	244,333,246

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest rate sensitivity of assets, liabilities and off statement of financial position items (continued)

1 January 2018	*Interest bearing* Within 1 year SR	*1 to 5 years* SR	*Over 5 years* SR	*Non-interest bearing* SR	*Total* SR
Assets					
Property and equipment	-	-	-	306,601	306,601
Net investment in finance lease	20,195,038	77,531,853	43,396,434	-	141,123,325
Investment classified as fair value through other comprehensive income	-	-	-	892,850	892,850
Due from related parties	-	-	-	93,276	93,276
Prepayments and other receivables	-	-	-	2,299,133	2,299,133
Cash and bank balances	32,624,402	-	-	17,207,220	49,831,622
Total assets	52,819,440	77,531,853	43,396,434	20,799,080	194,546,807
Liabilities					
Employee benefits liabilities	-	-	-	2,326,516	2,326,516
Other non-current liability	-	-	-	1,268,660	1,268,660
Due to related parties	-	-	-	31,951	31,951
Accounts payable, accrued and other liabilities	-	-	-	9,463,312	9,463,312
Total liabilities	-	-	-	13,090,439	13,090,439
Gap	52,819,440	77,531,853	43,396,434	7,708,641	181,456,368

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Currency risk
Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of the financial assets and liabilities denominated in foreign currencies, in case the Company does not hedge its currency exposure by means of hedging instruments. All of the purchases and sales of the Company are made in Saudi Riyals. As the Company did not undertake significant transactions in currencies other than Saudi Riyal, during the year, the Company was not exposed to any significant currency risk.

Other price risk
The Company is not exposed to other price risk such as equity risk and commodity risk as the Company is neither involved in investment in trading securities nor the commodities.

Liquidity risk
Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. This risk is managed through sale of receivables to banks, as disclosed in note 21. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Company's financial liabilities primarily consist of due to related parties, accounts payable and payable to bank under purchase and agency agreement. A significant portion of these financial liabilities are expected to be settled within 12 months from reporting date and the Company expects to have adequate liquid funds to do so.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Maturity analysis of assets and liabilities as per management estimation
The table below shows an analysis of assets and liabilities, analyzed according to when they are expected to be recovered or settled.

	Fixed maturity			*No fixed maturity*	*Total*
31 December 2019	*Within 1 year* *SR*	*1 to 5 years* *SR*	*Over 5 years* *SR*	*SR*	*SR*
Assets					
Property and equipment	-	-	-	1,413,984	**1,413,984**
Net investment in finance lease	25,844,092	86,014,814	39,126,617	-	**150,985,523**
Investment classified as fair value through other comprehensive income	-	-	-	892,850	**892,850**
Due from related parties	160,854	-	-	-	**160,854**
Prepayments and other receivables	9,887,974	620,646	-	-	**10,508,620**
Cash and bank balances	73,229,845	-	-	29,914,423	**103,144,268**
Total assets	**109,122,765**	**86,635,460**	**39,126,617**	**32,221,257**	**267,106,099**
Liabilities					
Employee benefits liabilities	-	-	-	3,543,225	**3,543,225**
Other non-current liability	-	380,589	835,948	-	**1,216,537**
Due to related parties	9,130	-	-	-	**9,130**
Accounts payable, accrued and other liabilities	7,111,519	211,644	3,852,162	-	**11,175,325**
Total liabilities	**7,120,649**	**592,233**	**4,688,110**	**3,543,225**	**15,944,217**

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Maturity analysis of assets and liabilities as per management estimation (continued)
The table below shows an analysis of assets and liabilities, analyzed according to when they are expected to be recovered or settled.

	Fixed maturity			*No fixed maturity*	*Total*
31 December 2018	*Within 1 year SR*	*1 to 5 years SR*	*Over 5 years SR*	*SR*	*SR*
Assets					
Property and equipment	-	-	-	261,619	261,619
Net investment in finance lease	23,551,497	81,200,326	37,829,932	-	142,581,755
Investment classified as fair value through other comprehensive income	-	-	-	892,850	892,850
Due from related parties	76,642	-	-	-	76,642
Prepayments and other receivables	1,220,176	585,828	-	8,744,115	10,550,119
Cash and bank balances	97,863,011	-	-	6,239,546	104,102,557
Total assets	122,711,326	81,786,154	37,829,932	16,138,130	258,465,542
Liabilities					
Employee benefits liabilities	-	-	-	2,801,899	2,801,899
Other non-current liability	-	-	1,056,314	-	1,056,314
Due to related parties	2,505	-	-	-	2,505
Accounts payable, accrued and other liabilities	6,860,569	204,112	3,206,897	-	10,271,578
Total liabilities	6,863,074	204,112	4,263,211	2,801,899	14,132,296

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Maturity analysis of assets and liabilities as per management estimation (continued)
The table below shows an analysis of assets and liabilities, analyzed according to when they are expected to be recovered or settled.

	Fixed maturity			*No fixed maturity*	*Total*
1 January 2018	*Within 1 year*	*1 to 5 years*	*Over 5 years*		
	SR	*SR*	*SR*	*SR*	*SR*
Assets					
Property and equipment	-	-	-	306,601	306,601
Net investment in finance lease	20,195,038	77,531,853	43,396,434	-	141,123,325
Investment classified as fair value through other comprehensive income	-	-	-	892,850	892,850
Due from related parties	-	-	-	93,276	93,276
Prepayments and other receivables	1,580,124	719,009	-	-	2,299,133
Cash and bank balances	32,624,402	-	-	17,207,220	49,831,622
Total assets	54,399,564	78,250,862	43,396,434	18,499,947	194,546,807
Liabilities					
Employee benefits liabilities	-	-	-	2,326,516	2,326,516
Other non-current liability	-	-	1,268,660	-	1,268,660
Due to related parties	31,951	-	-	-	31,951
Accounts payable, accrued and other liabilities	6,714,969	207,863	2,540,480	-	9,463,312
Total liabilities	6,746,920	207,863	3,809,140	2,326,516	13,090,439

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk

Credit risk arises from the possibility of asset impairment occurring because counter parties cannot meet their obligations in transactions involving financial instruments. The Company is exposed to credit risk on cash and bank balances, net investment in finance lease, employees' receivables, due from related parties and other receivables. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements. These procedures are based on the Company's internal guidelines.

Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers.

The Company manages concentration of credit risk exposure through sale of future net investment in finance lease receivables to banks through purchase and agency agreement. However, the Company mitigates its credit risk through evaluation of credit worthiness by obtaining promissory notes and by retaining the tile of the property leased out. For certain types of customers, the maximum credit limits are defined. An allowance for doubtful finance lease is maintained at a level which, in the judgment of management, is adequate to provide for impairment losses on delinquent receivables.

All finance leases are secured mainly through promissory notes and yield a fixed rate of commission for each contract. The title of the properties sold under finance lease agreements is held in the name of the Company as collateral to be repossessed, in case of default by the customer.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Collateral held

The Company, in the ordinary course of its leasing activities, holds collaterals as security to mitigate credit risk in the finance lease. Fair value of the collateral held by the Company against finance leases by each category are as follows:

	31 December 2019 SR	*31 December 2018 SR*
Neither past due nor impaired	**285,158,868**	236,294,796
Past due but not impaired	**20,876,110**	35,952,601
Impaired	**35,983,908**	29,824,569
	342,018,886	302,071,966

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk (continued)

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; 31 December 2018 and 1 January 2018. Unless specifically indicated, for financial assets, the amounts in the table represent net carrying amounts.

1) Net carrying investment in finance lease before ECL

	12 month ECL SR	*Life time ECL not credit impaired SR*	*Lifetime ECL credit impaired SR*	*Total SR*
31 December 2019	**114,342,592**	**21,821,680**	**19,252,791**	**155,417,063**
31 December 2018	99,201,729	30,444,659	17,432,058	147,078,446
1 January 2018	110,348,536	24,073,784	8,824,439	143,246,759

2) Allowance for ECL

	12 month ECL SR	*Life time ECL not credit impaired SR*	*Lifetime ECL credit impaired SR*	*Total SR*
31 December 2019	**700,233**	**1,320,493**	**2,410,814**	**4,431,540**
31 December 2018	557,043	1,737,140	2,202,508	4,496,691
1 January 2018	242,750	910,484	970,200	2,123,434

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 and 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.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk (continued)

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. For some portfolios, information obtained from external credit reference agencies is also used.

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, benchmark interest rates, unemployment etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

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.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and.
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk (continued)

Credit risk grades (continued)

c) Modified financial assets

The contractual terms of a financing and advances 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 financing and advances whose terms have been modified may be derecognised and the renegotiated financing and advances recognized as a new financing and advances at fair value in accordance with the 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 renegotiates finance lease receivables to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Company's policy, Finance lease 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 interest payments and amending the terms of leasing and instalments covenants. Both consumer and corporate portfolios are subject to the forbearance policy.

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 60 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 advice from the external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. 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.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and concentration of credit risk (continued)

Credit risk grades (continued)

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 the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. 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.

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.

g) Governance and controls
In addition to the existing risk management framework, the Company has established a Management Committee for oversight of IFRS 9 impairment process that includes representation from Finance, Risk and Information Technology (IT), as well as the involvement of subject matter experts in the areas of methodology reviews, data sourcing, risk modelling, and formulating judgements with respect to the aspects of significant increase in credit risk determination, macroeconomic assumptions and forward looking factors. The Framework and related controls have been approved by the Board of Directors.

Capital management

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure. The Company manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in objectives, policies or processes for managing capital during the year ended 31 December 2019 and 2018.

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of Regulations for Companies and SAMA. SAMA requires Finance Companies engaged in real estate finance, to maintain aggregate financing to capital ratio of five times.

	31 December 2019 SR	*31 December 2018 SR*	*1 January 2018 SR*
Aggregate financing to capital ratio *(Net investment in finance lease divided by total shareholders' equity)*	**0.60 times**	0.58 times	0.78 times

21 PURCHASE AND AGENCY AGREEMENT

The Company has entered into a purchase and agency agreement (the 'agreement') with a local bank in respect of certain finance lease receivables (referred to as 'receivables').

Under the terms of the purchase and agency agreement, the Company first sells the eligible receivables to the bank and then manages them on behalf of the bank as an agent for a monthly fee as per the terms of the purchase and agency agreement.

Upon sale, the Company derecognizes the receivables and recognizes the difference as either a gain or loss on derecognition of receivables. During the year ended 31 December 2019 and 2018, the Company did not sell any receivables to the bank.

The following are the significant terms of the agreement:

a) The Company continues to manage the sold receivables on behalf of the bank for a fee (agency fee). The total settlement of net receivables to be made to the bank in respect of the above-mentioned transaction as an agent under purchase and agency arrangement amounts to SR 33.9 million as of 31 December 2019 (31 December 2018: SR 41.2 million; 1 January 2018: SR 48.8 million). The maturity analysis of derecognized receivables is as follows:

	Up to 1 year SR	***2 – 3Years SR***	***After 3 years SR***	***Total SR***
31 December 2019	**7,114,092**	**10,921,712**	**15,835,437**	**33,871,241**
31 December 2018	7,370,851	12,844,053	21,027,188	41,242,092
1 January 2018	7,569,472	14,484,952	26,757,151	48,811,575

21 PURCHASE AND AGENCY AGREEMENT (continued)

b) The agreement is supported by a "cash flow statement" which stipulates the principal amount and the monthly receivables falling due. Under the terms of the agreement, the Company, in the capacity of an agent, settles to the bank a monthly amount based on the cash flow statement. Any excess collections over and above the stipulated amount and after retaining the amount for the next month's repayment, are transferred monthly by the Company to the bank. The amount of the next month's repayment is recognized as a liability and included in payable under purchase and agency agreement (note 17).

c) A reserve is to be maintained out of the monthly receipts, which is to be distributed at the end of the term of the agreement after deducting the actual defaults and discounts due to premature terminations. The balance in the reserve account after deducting the actual defaults and discounts shall be retained by the Company as deferred consideration on sale of receivables. Any shortfall in the reserve account is to be borne by the bank.

d) The present value of deferred consideration receivable is calculated by deducting the present value of expected defaults and discounts to be incurred over the life of the agreement from the present value of reserve amount to be received as per the cash flow statement. This represents the net deferred consideration receivable by the Company under the agreement, calculated as follows:

	31 December 2019 SR	*31 December 2018 SR*	*1 January 2018 SR*
Present value of deferred consideration receivable	**2,406,561**	2,872,874	3,325,190
Less: provision against expected defaults in respect of sold finance lease receivables	**(2,406,561)**	(2,872,874)	(3,325,190)
Net deferred consideration receivable	**-**	-	-

As on 31 December 2019, for the expired period of the agreed cash flows under the purchase and agency agreement, the Company had made provision for expected defaults and early termination of SR 3,555,440 (31 December 2018: SR 2,902,864; 1 January 2018: SR 2,232,307) (note 17).

e) The Company's net servicing assets and related liabilities are calculated separately for each agreement by calculating the present value of servicing asset, as per the terms of the agreement, and by estimating the present value of servicing liability and related provision. The net amount is classified as a net servicing asset or a net servicing liability on the statement of financial position. This has been presented as follows:

	31 December 2019 SR	*31 December 2018 SR*	*1 January 2018 SR*
Present value of net servicing liability	**1,132,670**	1,360,347	1,576,833
Less: current portion (note 17)	**(296,722)**	(304,033)	(308,173)
Non-current portion (note 16)	**835,948**	1,056,314	1,268,660

The present value of net deferred consideration receivable and the present value of net servicing asset and net servicing liability is calculated by using the Company's appropriate discount rate (note 2(d)).

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial assets consist of cash and bank balances, net investment in finance lease, investment classified as investment classified as FVOCI, employees' receivables, net deferred consideration receivable, due from related parties and other receivables. Its financial liabilities consist of due to related parties, accounts payable and payable under purchase and agency agreement.

The fair values of the financial instruments are not materially different from their carrying amounts except for the finance lease receivables.

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

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table provides the fair value measurement hierarchy of the Company's financial assets as at 31 December 2019, 31 December 2018 and 1 January 2018:

		Fair value measurement using		
31 December 2019	***Total SR***	***Quoted prices in active market (Level 1) SR***	***Significant observable inputs (Level 2) SR***	***Significant unobservable inputs (Level 3) SR***
Financial assets measured at fair value				
Investment classified as fair value through other comprehensive income	**892,850**	**-**	**-**	**892,850**

		Fair value measurement using		
31 December 2018	***Total SR***	***Quoted prices in active market (Level 1) SR***	***Significant observable inputs (Level 2) SR***	***Significant unobservable inputs (Level 3) SR***
Financial assets measured at fair value				
Investment classified as fair value through other comprehensive income	**892,850**	**-**	**-**	**892,850**

		Fair value measurement using		
1 January 2018	***Total SR***	***Quoted prices in active market (Level 1) SR***	***Significant observable inputs (Level 2) SR***	***Significant unobservable inputs (Level 3) SR***
Financial assets measured at fair value				
Investment classified as fair value through other comprehensive income	**892,850**	**-**	**-**	**892,850**

23 RESTATEMENT/RECLASSIFICATION OF PRIOR YEAR FIGURES

a) As set out in note 2(a) and 3, the Company has changed its accounting treatment to charge zakat for the year 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:

	For the year ended 31 December 2018 SR
Statement of comprehensive income	
Net income for the year	
Net income, as previously reported	4,597,763
Adjustment relating to zakat	8,285,115
Net income, as restated	12,882,878
Earnings per share	
Basic and diluted earnings per share, as previously reported	0.20
Adjustment relating to zakat	0.37
Basic and diluted earnings per share, as restated	0.57

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

b) Further, on 31 December 2017, the management of the Company erroneously included an amount of SR 2.4 million under 'Zakat and other liabilities' (see note 17). In order to adjust the balances, the management has restated the comparative amounts which resulted in reduction of 'Zakat and other liabilities' by SR 2.4 million, with corresponding decrease in 'accumulated losses' as at 1 January 2018 and 31 December 2018. This adjustment did not have any impact on net income for the year ended 31 December 2018. The impact of the above adjustments on the statement of financial position and statement of changes in shareholders' equity is summarized below:

	31 December 2018 SR	*1 January 2018 SR*
Accounts payable, accrued and other liabilities		
Balance, as previously reported	12,671,578	11,863,312
Adjustment relating to zakat and other liabilities	(2,400,000)	(2,400,000)
Balance, as restated	10,271,578	9,463,312
Accumulated losses		
Balance, as previously reported	(9,027,593)	(21,910,471)
Adjustment relating to zakat and other liabilities	2,400,000	2,400,000
Balance, as restated	(6,627,593)	(19,510,471)

24 BOARD OF DIRECTORS' APPROVAL

These financial statements were approved by the Board of Directors on 24 February 2020 (corresponding to 30 Jumada II 1441H).